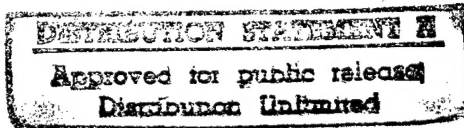


JPRS-CAR-90-088
28 NOVEMBER 1990



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CONTENTS

28 November 1990

INTERNATIONAL

GENERAL

Impact of Gulf Crisis on East Europe [Hong Kong LIAOWANG OVERSEAS EDITION No 41] ...	1
Third World Fears Impact of Single European Market [XINHUA]	2

SOVIET UNION

Influence of Germany, Japan on Soviet Power [GUOJI ZHANWANG No 19]	2
--	---

NORTHEAST ASIA

DPRK Urges U.S. To Remove Nuclear Threat [XINHUA]	3
U.S. To Provide Advanced Weapons to ROK [XINHUA]	3

POLITICAL

Mao Zedong's Hesitant Choice of Lin Biao [MAO ZEDONG SIXIANG YANJIU No 3]	4
Reviewing Mao's Sentiments on Peaceful Evolution [ZHIBU SHENGHUO Nos 9, 10]	8

ECONOMIC

NATIONAL AFFAIRS, POLICY

Commission Analyzes Strengthening Enterprise Management [QIYE GUANLI No 8]	15
Survey Conducted on Double Guarantee Enterprises [JINGJI CANKAO 20 Sep]	18
State Proposes Measures To Enhance Double Guarantee Enterprises [JINGJI CANKAO 20 Sep] .	18

PROVINCIAL

Readjustment of Heilongjiang Industrial Structure Reviewed [HEILONGJIANG RIBAO 18 Sep]	19
Qinghai Uses Local Resources To Boost Economy [XINHUA]	23

FINANCE, BANKING

Causes, Remedies for 'Triangular Debt' [ZHONGGUO JINRONG No 9]	23
Investment Strategy for Eighth Five-Year Plan [JINRONG SHIBAO 11 Sep]	26

INDUSTRY

Guizhou Industrial Output Value Increases [Guiyang Radio]	27
Steel Output Rises Eight Percent [CHINA DAILY 7 Nov]	28
Industry Posts Rise in October Output [CHINA DAILY 8 Nov]	29
Industrial Mold Manufacturing Termed 'Priority' [CHINA DAILY 12 Nov]	29

SMALL-SCALE ENTERPRISES

Ease Credit for Township, Town Enterprises [ZHONGGUO JINRONG No 9]	30
Township Enterprises Correct Dual Structure Drawbacks [ZHONGGUO XIANGZHEN QIYE BAO 28 Sep]	31

CONSTRUCTION

Capital Construction Investment by Usage, Affiliation [CEI Database]	34
Jiangsu Port Boosts Capital Construction [XINHUA]	34

FOREIGN TRADE, INVESTMENT

Journal Invites Debate on Appropriate Concessions for GATT [GUOJI MAOYI WENTI 30 Aug]	35
Strategy for Overseas Contracts, Service Exports [GUOJI SHANGBAO 15 Sep]	35
New Foreign Trade 'Reform Plans' [CHING CHI TAO PAO No 10]	38
Shanghai's Machinery, Electronics Exports Ahead of Target [JIEFANG RIBAO 13 Oct]	39
Imports Witness 'Recovery' [XINHUA]	39
Fujian Machinery, Electronics Exports Increase [XINHUA]	39
Shanghai Develops Overseas Labor Service Cooperation [XINHUA]	39
Statistics Show Foreign Investment Up [XINHUA]	40
Tianjin Exports Increase Over Previous Year [Tianjin Radio]	40

LABOR

Wages of Chinese Workers Increase [XINHUA]	40
Trade Unions To Honor Industrial Management Contracts [CHINA DAILY 31 Oct]	40

POPULATION

Results of Fourth Census [XINHUA]	40
Demographers Call for Better Population Control Methods [XINHUA]	41
RENMIN RIBAO Hails Census, Affirms Population Control Need [XINHUA]	41
Population Statistics for Guizhou Province [Guiyang Radio]	42
Qinghai's Population Exceeds 4.45 Million [Xining Radio]	42
Coastal Economic Growth Spurs Population Surge [XINHUA]	42
Tibet Communique Details Census Results [Lhasa Television]	43
Yunnan Statistical Bureau Issues Population Data [Kunming Radio]	44
Census Reveals Growth in Beijing's Floating Population [XINHUA]	44
Family Planning Service Network Formed [XINHUA]	44
Beijing's 'Natural' Population Growth Rate Decreases [XINHUA]	44

TRANSPORTATION

'Key' Highway Projects Completed, Opened [XINHUA]	45
Shanghai Shipping Company To Build Containers in Pudong [XINHUA]	45
Country's 'Largest' Shipyard Completed [XINHUA]	45
Construction of Shandong Capital Airport Begins [XINHUA]	45

PUBLICATIONS

Folk Code Word Book Published, Trademark Law Course Opens [XINHUA]	46
--	----

AGRICULTURE

Decline of Shaanxi Sheep-Raising Industry [ZHONGGUO FANGZHI BAO 18 Oct]	46
Differing Views on Increasing Agricultural Investment Summarized [ZHONGGUO NONGCUN JINGJI No 10]	47
Two-Way Contract Responsibility Systems Hailed in Rural Reform [LIAOWANG OVERSEAS EDITION No 43]	52
Hebei Grain Procurement [HEBEI RIBAO 29 Oct]	54
Sichuan Works To Solve Rural Employment Problem [JINGJI RIBAO 30 Oct]	54
Yunnan Tea Exports [YUNNAN RIBAO 1 Nov]	54
Anhui Vegetable Area [ANHUI RIBAO 2 Nov]	54
Bumper Grain Harvest To Benefit Pork Production [CHINA DAILY 17 Nov]	55
Liaoning Benefits From Spark Plan Projects [Shenyang Radio]	55

Jilin Livestock Production Increases During 1989 [Changchun Radio]	55
Cloud Seeding Aids Winter Wheat Sowing in Henan [XINHUA]	55

SOCIAL

Gambling Runs Rampant [JINGJI RIBAO 8 Sep]	56
--	----

MILITARY, PUBLIC SECURITY

Historical Outline of Naval Rights Consciousness [JIEFANGJUN BAO 14 Sep]	58
Nanjing Aeronautical Engineering Institute Successful [ZHONGGUO TONGXUN SHE]	62

REGIONAL

CENTRAL-SOUTH REGION

Guangzhou To Rectify 'Three Disorders' [GUANGZHOU RIBAO 8 Sep]	63
Sentences Handed Down in Criminal Cases [GUANGZHOU RIBAO 19 Sep]	63
Guangdong Official on Handling Pornography Cases [Guangzhou Radio]	64

NORTHEAST REGION

Jilin CYL Ideological Work Meeting Ends 15 Nov [Changchun Radio]	64
--	----

TAIWAN

Capital Outflow, Stock Market Undergo Decline [TSAI HSUN No 100]	66
Independence Advocates' Perception of Mainland [HSIN HSIN WEN No 185]	67
First Cholera Case in Three Decades Confirmed [CNA]	69
Beijing Plans Meeting on Taiwan, Reunification [Hong Kong SOUTH CHINA MORNING POST 9 Nov]	69
President Swears in Three New Ambassadors [CNA]	70

HONG KONG, MACAO

Conflicts Between Two Quasi-Parties Examined [MING PAO 13 Sep]	71
Democratic Groups Maneuvering for 1991 Elections [CHIUSHIH NIENTAI No 249]	72
UK Considers Sites for Future Consulate [SOUTH CHINA MORNING POST 13 Nov]	74

GENERAL

Impact of Gulf Crisis on East Europe

91CM0049A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 41, 8 Oct 90 p 30

[Article by Chen Fengying (7115 7685 5391): "Impact of the Gulf Crisis on the East European Economy"]

[Text] The Gulf crisis is continuously escalating, unsettling the economy of the whole world, and also not sparing the countries of East Europe, of whom some are grievously hurt.

In recent years, tremendous changes have occurred in the countries of East Europe, and their economic situation is extremely grim: Industrial output has declined, their public finances are in straitened circumstances, they are short of foreign exchange and high in foreign debts, they suffer serious inflation, unemployment is rising, the living standards of their people is declining, and they find it most difficult to reverse the economic situation. However, with the outbreak of the Gulf crisis their external plight has intensified, as this crisis is inflicting enormous losses on the troubled countries of East Europe.

For a long time, all East European countries have relied mainly on the Soviet Union for supplies of energy. Hungarian imports of oil came to 95 percent from the Soviet Union, Poland's to 85 percent, and similar figures in the other countries. However, in the last few years, particularly since the beginning of this year, the Soviet Union, because of reduced output and for other reasons, has greatly reduced its oil supplies. It is learned that supplies will be further reduced next year and will have to be paid for in hard currency at world market prices. This will, without doubt, be a serious blow to the economy of some of East European countries. With this shortage of energy sources, some East European countries will try to step up oil imports from the Middle East. Due to a tradition of trade and economic cooperation, and due to its favorable geographical location, Iraq had for many years been the second source of large-scale oil supplies for the East European countries. Before the outbreak of the Gulf crisis, Iraq supplied 500,000 barrels of oil per day to East Europe. According to current agreements, Iraq was to supply 3.2 million tons of oil to Yugoslavia this year and 1 million tons each to Bulgaria and Poland. However, up to now, Yugoslavia has received only 320,000 tons and Bulgaria only 140,000 tons. As a consequence of the sanctions against Iraq, East European plans for importing oil from Iraq cannot be fulfilled, while the dangers in the Gulf area have caused steep increases in world oil prices and forced greatly increased U.S. dollar expenditures on the East European countries. Some people in the West have estimated that Bulgaria will have to use all its foreign exchange on the importation of oil, and Czechoslovakia, Poland, and Hungary will have to spend 90, 33, and 21 percent, respectively. Furthermore, due to the shortage of oil

supplies, many industries in some of the East European countries have been forced to close down or to operate at half capacity. Most hard hit is the petrochemical industry, which in particular was the main source of foreign exchange for some East European countries.

Iraq is for the East European countries not only an oil supply country, but also a country of considerable mutual economic and trade relations. It is in this connection too that some East European countries suffer tremendous losses due to the imposition of economic sanctions against Iraq. The reason is that Iraq is the main recipient of East European exports of services. Before the eruption of the Gulf crisis, Yugoslavia had signed agreements with Iraq for engineering projects to the value of over \$5 billion and had about 100 Yugoslav companies working under contract in Iraq. As many as about 10,000 Yugoslavs were working in Iraq, while in Yugoslavia itself 50,000 people were engaged mainly in manufacturing for the Iraq market. Imposition of sanctions against Iraq means that 60,000 Yugoslavs will face unemployment, and that many Yugoslav enterprises will suffer losses of over \$1 billion. Polish and Romanian personnel working in Iraq and Kuwait number 4,000 and 3,000, respectively. Engineering projects undertaken by Bulgaria in Iraq also account for a considerable sum. In the end, these countries will suffer huge losses in their contracts for engineering projects. Some East European countries are among the main suppliers of armament to Iraq. For a long time, East European countries, particularly Yugoslavia, Poland, and Czechoslovakia, have exported arms and ammunition to Iraq. It is estimated that Poland will suffer a loss of hundreds of millions in U.S. dollars by the interruption of exports of arms and military equipment to Iraq. Yugoslavia's arsenal has manufactured 200 tanks, worth several hundred million dollars, but due to the Gulf crisis this deal cannot be completed. The suspension of arms shipments to Iraq and Kuwait has the war industry in some countries in a serious predicament. Iraq is in debt to the East European countries. It is estimated that Iraq now owes the East European countries in excess of \$5 billion, to Yugoslavia almost \$2 billion, to Bulgaria \$1.2 billion, and to Romania over \$1 billion. Early this year, various countries concluded agreements with Iraq, according to which Iraq would increase oil supplies in repayment of its debts. In June, Yugoslavia's Premier Markovic went to Baghdad because of Iraq's outstanding debts and concluded an agreement for their repayment. All these agreements had come to nothing with the outbreak of the Gulf crisis. Iraq is East Europe's main trade partner. For many years, close trade relations have existed between the East European countries and Iraq; Poland alone had trade with Iraq that reached as much as \$400 million annually. This trade has now been interrupted, and this has had a certain impact on the export trade of the East European countries.

To sum up, the Gulf crisis has caused the East European countries grievous losses. Among these countries, Yugoslavia is the most seriously hurt, with an estimated

several billion U.S. dollars in direct losses. Poland's losses will reach \$1.5 billion and Bulgaria's \$160 million. The sudden eruption of the Gulf crisis had caught the East European countries unawares and meant for them an additional disaster on top of their already disastrous economic situation.

Third World Fears Impact of Single European Market

OW2011051390 Beijing XINHUA in English
0148 GMT 20 Nov 90

[Text] United Nations, November 19 (XINHUA)—As Europe moves toward a common market in 1992, the Third World countries fear that they may be shut out of the continent.

According to the latest issue of DEVELOPMENT FORUM, a U.N. publication, the Third World concerns over declining aid, increased protectionism and the dumping of hazardous industries and products on their already fragile economies once the single market comes into being.

The 12 nations of the European Community (EC), which began the process of integration in 1985, have been steadily moving toward a common market through integrating their investment, trade, and environmental regulations.

The Single European Act of 1986 defines the internal market as "an area without internal frontiers in which the free movement of goods, persons, services, and capital is assured."

"While 1992 creates opportunities," as Ann Clywd, Britain's shadow minister for overseas development and cooperation, said recently, "it also poses risks, particularly to the poorest countries."

As internal barriers are removed, some developing countries believed, less efficient producers within the community will certainly receive preferential treatment for their goods at the expense of Third World exports.

According to the forum, many developing countries rely heavily on trade with Europe to sustain their struggling economies. By 1989, the EC accounted for nearly one-fourth of exports from developing countries and almost 60 percent from the sub-Sahara Africa.

Another concern of the developing countries is that a single market will bring with it a strict environmental and health standards for all goods traded with the EC.

Mozambique, for example, could lose up to 40 percent of its export income if its prawn exports fail to meet the new standards on shellfish set by the EC.

In a country like Mozambique where one in every three children dies before its fifth birthday, such a loss of exports would be fatal.

The fear of many developing countries on the impact of the single market is also apparent in the battle for foreign aid. They fear that the rapprochement between East and West will shift more Western economic aid to the East European countries, thus affecting the level of aid to the South.

The forum said that it is still too early to tell what the precise advantages and disadvantages of a common market will be for the developing countries. But many will be apparent after the EC has formalized its trade and tariff policies, sometime before the formal economic integration of the EC.

SOVIET UNION

Influence of Germany, Japan on Soviet Power

91CM0068A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 19, 8 Oct 90 pp 5-6

[Article by Cai Run (5591 3387): "The Soviet Union Faces a Challenge to Its Superpower Position"]

[Excerpt] [passage omitted] 3. Unification of the two Germanys poses a very real challenge to the superpower position of the Soviet Union.

The speed with which German unification was accomplished was beyond everyone's expectations. Emergence of a unified Germany in the center of Europe poses a serious challenge to the two superpowers, the United States and the Soviet Union, and is about to radically change the overall global strategic situation, be it in economic, technological, or in political respects.

After unification, Germany will have an economic strength that will exceed that of Britain and France combined and will in future aspire to a political and military position commensurate with its economic strength. We must also realize that the strength of a united Germany will not only be the simple aggregate of the strength of the present two Germanys; far beyond that, it will possess great developmental potential and superiority. The power balance of present-day Europe will become upset, and for a certain period of time it will be the United States, the Soviet Union, and Germany that will play an active role on the European stage. A British newspaper, THE SUNDAY TIMES, predicted that "Germany will become in the 1990's a highly successful superpower." The Soviet Union's influence in Europe will unavoidably diminish.

4. Japan, which aspires to "political greatness," will also assume a somewhat haughty attitude as far as the Soviet Union is concerned.

In the west a unified Germany and in the east Japan with its ambition of political greatness—the Soviet Union will thus be hemmed in between these two rapidly rising, strong countries. As far as the Soviet Union is concerned, it will in many respects find it more difficult to cope with Japan than with Germany.

First, while the Soviet Union was losing its control over East Europe, Japan was vigorously extending its influence into East Europe. Economically, Japan intends to help the East European countries carry out "economic reforms centered on restoration of the system of private ownership and development of the market economy." For instance, Japan provided Poland and Hungary with aid and emergency food relief to the total amount of \$1.95 billion, and will also help East Europe with the necessary qualified personnel to build up their market economy. Politically, Japan supports East Europe's "democratization." By all these activities, Japan is obviously intent on promoting the further disintegration of the Soviet bloc, as it believes this will enhance Japan's strategic security.

Second, Japan firmly persists in the principle of the "inseparability of politics and economics." It will use economic assistance as bait, and pressure the Soviet Union again and again with the demand to return the four northern islands. The Soviet Union does want Japanese technology and capital, but on the other hand it does not want to yield to Japanese pressure and combine these matters with the problem of sovereignty over the four northern islands. This is indeed a dilemma that the Soviet Union is now facing.

Japan is also making great effort to expand its influence in the Third World and has increased its aid and loans to the Third World. Japan's present budgetary allocation is for almost \$10 billion annually in official development aid to the Third World, making Japan the largest provider of foreign aid in the world. This is bound to destabilize the Soviet Union's traditional position in the Third World, as some countries will for this very reason distance themselves from the Soviet Union.

Japan is, furthermore, continuously expanding its military strength. If Japan would at any time in future freely use its high-tech superiority and industrial potential for military purposes, this would add yet another strong military opponent for the Soviet Union.

At present, Japan's economic strength already exceeds that of the Soviet Union. Japan believes that the time has already arrived for Japan to play a "positive" role in world affairs, and for Japan to become the central power of Asia. In a personal letter that Japan's Prime Minister Toshiki Kaifu wrote to U.S. President Bush before his, Kaifu's, first visit to Europe in 1990, he already said: "The new world order must be shaped with Japan, the United States, and Europe as the three dominating forces," a phrase that clearly indicates exclusion of the Soviet Union.

Faced with this grim challenge, the Soviet Union is now also in the process of actively readjusting its strategy, trying to gain the initiative, while the Soviet Union as a large and powerful country also possesses huge potential. Whether the Soviet Union will be able to recover its national strength or whether it will continue to decline will involve a fairly protracted process, and it is difficult to arrive at a definite conclusion at the present time as to its eventual developmental prospects.

NORTHEAST ASIA

DPRK Urges U.S. To Remove Nuclear Threat

OW1611170590 Beijing XINHUA in English
1514 GMT 16 Nov 90

[Text] Pyongyang, November 16 (XINHUA)—The Democratic People's Republic of Korea (DPRK) today urged the United States to promise to remove its nuclear threat against the DPRK, thereby paving the way for Pyongyang's signature of a treaty on nuclear safety with the International Atomic Energy Agency (IAEA).

In a statement issued by the Foreign Ministry, the DPRK said that it would sign a nuclear safety treaty with the IAEA once Washington guarantees that it has removed the American nuclear threat against the DPRK.

The DPRK has had many rounds of talks with the IAEA on the treaty, and agreements in principle have been reached, the statement said, adding that the only problem which remains is the absence of a U.S. promise to remove its nuclear threat against the DPRK, a country that possesses no nuclear weapons.

Noting that the United States has deployed more than 1,000 nuclear weapons in South Korea, the statement said Washington must guarantee the safety of the DPRK, a country without nuclear arms, in accordance with the treaty on the non-proliferation of nuclear weapons.

Only when the United States makes a legally binding promise that it will refrain from targeting such weapons against the DPRK can Pyongyang sign the nuclear safety treaty, the statement stressed.

It also criticized the United States for making the DPRK's signature on the nuclear safety treaty a prerequisite for improving bilateral relations, saying that this would only make the matter more complicated and would not lead to a solution of the problem.

The statement urged Washington to respond to a DPRK proposal for holding bilateral consultations on the matter.

The DPRK is now ready for consultations with the United States. And if the Americans truly want to settle the nuclear safety treaty issue, then they should come to the negotiation table, the statement said.

U.S. To Provide Advanced Weapons to ROK

OW2111120590 Beijing XINHUA in English
0842 GMT 21 Nov 90

[Text] Pyongyang, November 21 (XINHUA)—The U.S. Defense Department notified the Congress Monday that the United States is to deliver advanced military equipment worth \$356 million to South Korea to modernize its armed forces, according to a report from Seoul.

The equipment includes 20 Cobra attack helicopters, 42,000 rounds of artillery shells and two anti-tank missiles.

The KOREAN CENTRAL NEWS AGENCY said in a commentary on the U.S. move today, "The fact proves that the United States is the very one aggravating the situation on the Korean peninsula."

Mao Zedong's Hesitant Choice of Lin Biao

91CM0029A Chengdu MAO ZEDONG SIXIANG
YANJIU [STUDIES IN MAO ZEDONG THOUGHT]
in Chinese No 3, 25 Aug 90 pp 85-90

[Article by Xu Quanxing (6079 0356 5281), Philosophy Department, Beijing University; Yang Xiannong (2799 0341 6593), responsible editor: "Mao Zedong's Hesitation Over Succession during His Later Years"]

[Text] On 8 July 1966, as the Cultural Revolution was about to unfold, Mao Zedong, who happened to be in Wuhan, wrote to Jiang Qing in Shanghai. The letter covered a broad range of topics. It analyzed the Cultural Revolution, which had just begun, and speculated about the future of the party and the nation. It attacked the rightists and implicitly criticized Lin Biao. It was a self-analysis by Mao Zedong and also contained admonitions to Jiang Qing. It discussed modern Chinese history as well as the history of the international communist movement. It touched on politics and philosophy. Beautifully written and full of proverbs and literary quotations, it was lively, humorous, funny, subtle, and highly philosophical and gave one much food for thought. It was an important document indispensable to understanding and grasping the thought and deeds of Mao Zedong in the last 10 years of his life.

Because of its above-mentioned features, this letter has been interpreted in all sorts of ways ever since it was made public. Recently I read "An Extraordinary Piece of Self-Analysis" (DANGXIAO LUNTAN [PARTY SCHOOL FORUM], 1989, No. 5) by Professor Jin Chunming [6855 2504 2494] and "Is It Extraordinary Self-Analysis or Excessive Self-Confidence?" (DANGXIAO LUNTAN, 1989, No. 8) by Hu Weixiong [5170 3634 7160], a lecturer. Although I found them quite enlightening, I feel their interpretations of the theme in the letter are open to question. Let me take this opportunity to discuss my superficial views on Mao Zedong's letter to Jiang Qing.

I

Jin Chunming writes, "Mao Zedong was a little disturbed by the excessive praises heaped on him by Lin Biao. Nor did he agree completely with the contents of Lin Biao's speech. On the whole, however, he trusted and relied on Lin Biao, regarding him as a friend who could help him attack the demons. Thus, Mao Zedong's purpose in writing the letter to Jiang Qing was absolutely not to expose him." Jiang Qing and her gang had spread the word that Mao Zedong wrote the letter in order to expose Lin Biao's reactionary nature. Jin Chunming's article is a persuasive rebuttal of this interpretation, but he argues in his article that, although Mao Zedong "analyzed both the international and the domestic situations in his letter, he seemed to emphasize his own self-analysis." On this I cannot agree with Jin Chunming.

Nor does Hu Weixiong. He thinks that Mao Zedong's main concern in his letter was not analyzing himself, but

expounding to Jiang Qing the political theory that chaos alternated with order in society, his own invention, controlling Jiang Qing, the "Cultural Revolution" standard-bearer whom he had groomed, at a distance and instructing her what to do next to set the entire country ablaze with the flame of the revolution and accomplish the mission of overthrowing the right wing throughout the party and the nation. This writer begs to differ.

While I disagree with the notion that Mao Zedong wrote the letter to expose Lin Biao's reactionary nature, I believe that the focus of the letter was indeed Lin Biao and not anything else.

First of all, we know from the letter that what immediately prompted Mao Zedong to write was the fact that Lin Biao had been urging the CPC Central Committee to publish his speech delivered at an enlarged meeting of the Politburo of the CPC Central Committee on 18 May 1966, about which Mao Zedong had certain reservations. The entire letter revolved around Mao Zedong's uneasiness about Lin Biao's speech and proceeded therefrom. Mao Zedong went in for self-analysis in order to illustrate the impropriety of Lin Biao's suggestions.

Second, Mao Zedong's letter was written to his wife and was not intended to be made public in his lifetime. Three days after he wrote the letter, however, Mao Zedong took the initiative to ask Zhou Enlai, who had gone to Wuhan to conduct some business relating to foreign affairs, to stay an extra day. The next day, he showed Zhou Enlai a copy of the letter. (According to a speech by Jiang Qing in 1972, Wan Renzhong [3769 0117 6850], then first secretary of the Hubei Provincial CPC Committee, had also seen the letter.) After reading the letter, Zhou Enlai volunteered to go to Wuhan to persuade Lin Biao and advise him to mend his ways and stop talking in that vein. Mao Zedong agreed. Had the focus of the letter been self-analysis, it would not have been necessary for him to rush to show the letter to Zhou Enlai. After he returned to Beijing, Mao Zedong also instructed the leader of the Central Propaganda Department not to use expressions like "highest and most lively," "peak," and "highest instructions."

Third, after Lin Biao bit the dust, Mao Zedong showed the letter to the party and used it as an ideological weapon to criticize Lin Biao. Had the theme of the letter been self-analysis, how can we explain Mao Zedong's move? If Mao Zedong had written the letter to explain his political philosophy to Jiang Qing and control from a distance her next course of action, as Hu Weixiong has contended, then the letter should have been kept secret and not be shown to anybody, not Zhou Enlai, not Wang Renzhong, and certainly not the world.

Because of what directly led Mao Zedong to write the letter and its social consequences, I think the focal point of the letter was Lin Biao.

II

Why then did Mao Zedong stress Lin Biao in his letter? Is it because, as Jiang Qing argued in 1972, Mao Zedong had then already realized that Lin Biao was not ideologically and theoretically a Marxist-Leninist? Obviously not. What was it then? Simply put, at the time Mao Zedong was finally making up his mind to let Lin Biao replace Liu Shaoqi as his successor. At the same time, however, he was not completely sure about Lin Biao and did not quite trust him. He felt torn by different emotions. To prove this theory, we need to analyze the process by which Mao Zedong changed his heir apparent.

From the Seventh National Party Congress of the CPC in 1945 to the 11th Plenary Session of the Eighth CPC Central Committee in August 1966, Liu Shaoqi was the number-two man in the party, second only to Mao Zedong. In 1959, Mao Zedong let Liu Shaoqi succeed him as chairman of the state. In 1961, Mao Zedong publicly acknowledged in a conversation with Field Marshal Montgomery of Britain that he had chosen Liu Shaoqi as his successor. Soon afterward, however, beginning with the 10th Plenary Session of the Eighth CPC Central Committee in 1962, Mao Zedong gradually began to disapprove of Liu Shaoqi, thinking that he was a right deviationist. At the "four cleanups" movement work conference held in early 1965, Mao Zedong openly clashed with Liu Shaoqi, arguing that the latter was trying to bring about revisionism. In May 1966, Mao Zedong hinted in the "16 May" circular of the CPC Central Committee that Liu Shaoqi was like Khrushchev and laid down the strategy of the Cultural Revolution. When he ordered, on 1 June, that big-character posters by Nie Yuanzhi [5119 0337 2737] and others be broadcast and published in full, he had already decided to use "mass democracy" to expose the "dark side" of the party and destroy the "bourgeois headquarters" led by Liu Shaoqi and his "agents" everywhere. Mao Zedong's strategic thinking on the Cultural Revolution was largely set by late May and early June.

If Liu Shaoqi was out of the question, who then? This was a big issue that troubled Mao Zedong. Between May and June, he tentatively picked Lin Biao as his heir apparent, but he was not absolutely sure. He still had not made a final decision.

Mao Zedong's distrust of Lin Biao stemmed from more than his belief that Lin Biao's speech was inappropriate; there were deeper causes. There was something about Lin Biao that Mao Zedong admired: He could fight, he had ideals, he had the courage to express his opinions, and he stressed ideological and political work after taking over the Central Military Commission. Lin Biao's advocacy of the theory of "learning and applying something in a lively way" and the "four firsts" was heartily approved by Mao Zedong. Moreover, compared to other top CPC leaders, Lin Biao was the youngest (59 in 1966). But there was another side of Lin Biao that Mao Zedong found disturbing. Mao Zedong was well aware of Lin

Biao's mistakes in the past. During the Jinggang Shan period, Lin Biao asked "how long the red flag could fight." On the Long March, he wrote a letter before the Huili Conference of May 1935 opposing Mao Zedong's strategy and tactics and demanding a change of leadership on the Central Military Commission. During the Battle of Liaoning-Shenyang, he stubbornly clung to his opinions time and again and insisted on the war plan of attacking Changchun first. Only after Mao Zedong sent out a dozen telegrams, coupled with some arm-twisting by Luo Ronghuan [5012 2837 2719] and others, did he obey orders and carry out the policy of the Central Military Commission relating to the evacuation of Changchun, the southern march on the Beijing-Nanjing line, and the taking of Jinzhou first. According to literature available to me now, Mao Zedong's distrust of and doubts about Lin Biao were evident in his poem *In Memory of Comrade Luo Ronghuan*.

On 16 December 1963, Marshal Luo Ronghuan, who had been Mao Zedong's associate the longest, passed away. A grief-stricken Mao Zedong praised him as a man of principle who was ruthless to his enemy but did not criticize others behind their backs, a remarkable man who had been consistent over the years. Mao Zedong went to Beijing Hospital in person to pay his last respects to the remains of Luo Ronghuan. As Wu Xujun [0702 2485 0689], who worked at Mao Zedong's side, recalled, Mao Zedong rarely spoke and was seemingly lost in thought for the next few days. After endless thinking, he finally wrote *In Memory of Comrade Luo Ronghuan*, an eight-line poem with seven characters to a line. It goes like this: "I recall us flying on the grass way back when. We kept running into each other in the ranks of the Red Army. The Long March was not unbearable. The real problem was the strategy for Jinzhou. The large bird is often bullied, and the kunji [2492 7741] taunts the old eagle. Now that you have sadly departed from the land of the living, whom can I ask about problems of state?" In my opinion, references in the poem to "large bird," "kunji," "and" old eagle" can be interpreted in various ways, but the meaning of the two lines—"The Long March was not unbearable. The real problem was the strategy for Jinzhou"—was quite clear. It was a criticism of the mistakes made by Lin Biao during the Long March and in the Battle of Shenyang and Liaoning. In 1963, Mao Zedong was already putting Lin Biao in key positions. Why then did he simultaneously expose his shortcomings in a poem mourning a third person? To solve this puzzle, I think we must not only think in terms of Mao Zedong's analysis of the international and domestic political situations at the time, but also look for an answer in the last two lines of the poem, "Now that you have sadly departed from the land of the living, whom can I ask about problems of state?" These two lines convey the poet's profound admiration for Luo Ronghuan and his boundless sadness over his death. The question here is: What does "problems of state" refer to? In a broad sense, Mao Zedong at the time was preoccupied with how China could oppose and prevent revisionism, how China could prevent revisionists from

seizing the leadership of the state and party. Yet the person to whom he directed these concerns was Luo Ronghuan, who had worked alongside him for years. The question Mao Zedong had in mind could not be that wide-ranging, but must certainly have something to do with Lin Biao. By then Mao Zedong had grown highly distrustful of his original successor, Liu Shaoqi. Who should replace him? Clearly this question weighed heavy on Mao Zedong's mind. No doubt Lin Biao, who was then being promoted to important positions, was one of the candidates, but it was not certain at all that Lin Biao could live up to the great responsibilities. How did Lin Biao conduct himself? That was one question only his long-time associates could answer. Among senior cadres in the party, Luo Ronghuan must be considered to have worked with Lin Biao the longest. And he was also a trustworthy person. Thus Mao Zedong thought that to understand Lin Biao better, he could only ask Luo Ronghuan and nobody else. With Luo Ronghuan gone, Mao grieved a long time and, unable to bare his soul directly, could only write the poem to convey his sorrow. References in the poem to Lin Biao's weaknesses were not a rebuke of him, but reflected the fact that the writer was torn by conflicting emotions even as he was about to further promote Lin Biao. How to oppose and prevent revisionism was Mao Zedong's obsession at the time. Whether or not Lin Biao could make it as his successor was an issue that the party should consider. So it was not surprising that he referred to Lin Biao in his poem in memory of Luo Ronghuan. After the Lin Biao incident, Mao Zedong probably regretted not having asked Luo Ronghuan sooner. In the wake of the disaster of the Cultural Revolution, no doubt it occurred to the Chinese people that if Luo Ronghuan were still living or had he lived a few more years and Mao Zedong had a chance to ask him, perhaps Lin Biao would not have become heir apparent. The Cultural Revolution would still have occurred, but likely would have been a different story.

Although Luo Ronghuan had left this world, had left Mao Zedong, the latter's doubts about Lin Biao did not go away.

Learning a lesson from the international communist movement, Mao Zedong paid more and more attention to the succession issue. At a conference in June 1964, he devoted his speech to the "succession question: preparing for a funeral." Although one can interpret the speech in a broad sense, that is, one can take it to mean training tens of millions of successors for the proletarian revolutionary cause from top to bottom, there is no doubt he was also talking about preparing for what was to come after his death and reconsidering his current successor. By the spring of 1966, all signs showed that he had tentatively chosen Lin Biao as his successor. Before then Mao Zedong had been putting Lin Biao in key positions. (At the Fifth Plenary Session of the Eighth CPC Central Committee in May 1958, Lin Biao was elected to a concurrent position as vice chairman of the CPC Central Committee. At the Lushan Conference in 1959, he succeeded Peng Dehuai as minister of defense

and was put in charge of the Central Military Commission.) So far, however, Mao Zedong had not allowed him to involve himself in affairs outside the armed forces. In 1966, however, he began letting Lin Biao participate in local cultural work through Jiang Qing. Later, on 11 March, Lin Biao wrote a letter to the industry and transportation front advocating learning and applying Mao Zedong's works in a lively way. On 7 May, Mao Zedong wrote to Lin Biao outlining his vision for the future society. (This was the "7 May Instruction.") On 18 May, Lin Biao delivered a major speech at an enlarged meeting of the Politburo of the CPC Central Committee. All this makes it plain that in the spring of 1966 Lin Biao's position in the party was rising rapidly. His work was no longer confined to running the military.

It was certain that Mao Zedong picked Lin Biao to replace Liu Shaoqi. Within the party leadership, only the tiniest handful of people were aware of Mao Zedong's change of heart regarding his choice of successor. Kang Sheng [1660 3932] was one of the drafters of the CPC Central Committee 16 May circular and adviser to the Cultural Revolution group of the CPC Central Committee. Addressing an enlarged meeting of the Politburo, he strongly attacked Peng Zhen, Luo Ruiqing, Lu Dingyi, and Yang Shangkun, even denouncing and vilifying commander-in-chief Zhu De, but paid a few compliments to Liu Shaoqi. He later acknowledged that at the time he had thought that only Peng Zhen was in trouble. It did not occur to him that the successor was also in trouble. Nor did he dare to entertain such a thought. The relationship between Kang Sheng and Mao Zedong was no ordinary relationship. If a person like Kang Sheng was not fully aware of Mao Zedong's intention to change his successor as late as May, others had even less inkling. However, by then Lin Biao clearly had sensed Mao Zedong's intention. He urged the CPC Central Committee to make public his 18 May speech so as to further elevate his position in the party and prepare public opinion for the impending change. Mao Zedong guessed that this was the reason why Lin Biao was urging him to authorize the dispatch of the 18 May speech. But he still had reservations about Lin Biao.

Adept at reading Mao Zedong's mind, Lin Biao pretended to "closely follow" the leader and acted like a good student that "held high" the red banner. Although Mao Zedong had fallen into subjectivism in his analysis of Chinese society and the political situation within the party and seriously departed from Marxism, he remained a great Marxist after all. To him all Lin Biao's talk about "genius," "peak," and "one word rebutting 10,000 words" was wrong, unscientific, and inconsistent with historical materialism. Accordingly, he put forward his own different opinions to Lin Biao at a meeting in Hangzhou in April. "But what is the use? He continued to talk in that vein at the Beijing meeting in May. The press went even further with wild exaggerations. I had no choice but to join the Liangshan rebels." Why did Lin Biao do what he did? "My guess is that they wanted to hit out at the demons through Zhong Kui. Thus I become

the Zhong Kui of the CPC of the 1960's." These words by Mao Zedong are worth pondering. They reveal his conflicting, indescribably complex emotions as he played the role of Zhong Kui. To hit out at the demons, he was willing to be Zhong Kui. But once the demons were destroyed, how would Lin Biao treat him? To Mao Zedong's mind, he (Mao Zedong) was merely an instrument that Lin Biao would use to attack the demons. This perception on his part tells us something about his interpretation of the motive that prompted Lin Biao to sing his praises. There was an ancient Chinese saying: "You pat the horse because you want to ride on it." When it is overdone, singing somebody's praises becomes flattery. How could a politician like Mao Zedong with his familiarity with Chinese history and solid experience in political struggles not detect something odd about Lin Biao's excessive laudation? How could he not be vigilant about Lin Biao using him as a tool to attack the demons?

III

Mao Zedong did analyze himself at length in the letter. On the face of it, such self-analysis was a sign of modesty. He wanted to say that he did not agree with Lin Biao's ideas as well as to admonish Jiang Qing to spend more time reflecting on her shortcomings, weaknesses, and mistakes and not let success go to her head. This is the superficial interpretation. At a deeper level, the self-analysis was intended to fully reveal his quality and personality: his self-confidence and lack of self-confidence, primarily the former; his tiger spirit and monkey spirit, primarily the former.

Mao Zedong wrote this aphorism when he was a student: "Struggling with nature gives one endless pleasure, as does struggling with man." His letter quoted this verse he had written as a youth: "I expect to live 200 years and fight my way in the water for 3,000 li." All this demonstrates his self-confidence, his tiger spirit. Ever since his youth, Mao Zedong had impressed the world as an all-powerful mover and shaker who feared neither demon nor devil, who never bowed to difficulties and was never intimidated by his enemy, who always triumphed in his struggles, be they struggles with the class enemy at home, with erroneous tendencies inside the party, or with difficulties in nature. Thus the world saw only his self-confident side, his tiger spirit, and often did not see or did not believe his lack of self-confidence. Mao Zedong's self-analysis was intended to reveal this side to the public.

In my opinion, Mao Zedong's references in the letter to his being self-confident and not self-confident at the same time and to his tiger spirit and monkey spirit can be read at an even deeper level. They neatly and subtly summed up his view of the political situation and his successor. He was full of confidence about staging the Cultural Revolution, about defeating the rightists in the party. Yet he had no confidence in the future of the party and the nation, believing that the right wing might stage an anticommunist coup. He approved of the dispatch of

Lin Biao's letter and picked Lin Biao as his successor. At the same time, he was not absolutely sure about these decisions. He still had doubts about Lin Biao, even to the point of preparing to be torn apart by others in the future. Mao Zedong believed that the most important mission then was to overthrow the "rightist faction" led by Liu Shaoqi. As for the question of finding somebody to replace him, he could only pick Lin Biao in the absence of a more suitable candidate.

Mao Zedong could not openly express his feelings about Lin Biao but thought that he must let future generations know about them. That is why he wrote the letter to Jiang Qing before he went public with his decision to make Lin Biao his successor, thus airing his complex feelings in a roundabout, subtle, and implicit manner. Mao Zedong's motives were just as complex. On the one hand, should Lin Biao by any chance turn out to be a revisionist in future and things went wrong, future generations would forgive him. Hence Mao Zedong's decision to publish the letter in 1972. This showed that he remained a farsighted person. On the other hand, he wanted Jiang Qing to understand all his feelings about Lin Biao and be more wary of him. However, Jiang Qing did not heed his advice and failed to appreciate Mao Zedong's real intent in writing to her. On the contrary, she became arrogant and colluded with Lin Biao as the two took advantage of each other. She went against the people and the party savagely, degenerating into a person condemned by the people.

In short, Mao Zedong absolutely did not write the letter to Jiang Qing to expose Lin Biao's anti-Marxist nature. Instead, the letter was a "memorandum" written before Lin Biao became his successor. As a matter of fact, the letter indeed served as a "memo." Having thus set the stage, at the 11th Plenary Session of the Eighth CPC Central Committee, Mao Zedong wrote the "Bombarding the Headquarters" big-character poster to launch a public showdown with Liu Shaoqi, on the one hand, and formally designated Lin Biao as his heir apparent, on the other. Unaware of Mao Zedong's conflicting emotions as he made this strategic decision, others as usual hailed it as a great and brilliant move.

Mao Zedong might have picked Lin Biao as successor, but his doubts about him lingered. Precisely because he continued to have reservations about Lin Biao, he personally took charge of the Cultural Revolution throughout despite his advancing years and had Premier Zhou Enlai help him in his work, instead of retreating to the second front and letting Lin Biao take over. What about Lin Biao? As heir apparent, he continued to sense that the old man was wary of him and felt insecure about his position as successor. At the Second Plenary Session of the Ninth CPC Central Committee in 1971, therefore, he launched an attack by staging a farce to seize power. Similarly, precisely because Mao Zedong was leery of him, the farce was crushed as soon as the curtain went up.

The issue of finding a successor troubled Mao Zedong throughout the last decade of his life. By straying from collective leadership, he made mistake after mistake. He taught us a bitter lesson that we should bear in mind forever. As Deng Xiaoping said, "It was not right for Mao Zedong himself to choose Lin Biao as his successor. 'A leader who selects his own successor perpetuates a feudal practice.'"¹

Mao Zedong's letter was substantial in content. A correct and comprehensive understanding of this letter is significant for correctly understanding his ideas and deeds in his waning years. The superficial ideas of this article may have been subjective and arbitrary. Comrades are welcome to criticize and correct them.

Footnote

1. *Selected Works of Deng Xiaoping, (1975-1982)*, pp. 305-306.

Reviewing Mao's Sentiments on Peaceful Evolution

91CM0046A Beijing ZHIBU SHENGHUO [PARTY BRANCH LIFE] in Chinese Nos 9, 10, 1990

[Article by Feng Xianzhi (6646 0341 4249): "A Review of Mao Zedong's Ideas on Preventing Peaceful Evolution"]

[No 9, 5 Sep 90 pp 18-20]

[Text] **Editor's note:** *This article originally appeared in the magazine ZHENLI DE ZHUIQIU [THE SEARCH FOR TRUTH]. Due to its length, we will reprint half of it in this issue and half in the next for the benefit of our comrades' study and reference.*

After the unrest in China last year in late spring and early summer, the counterrevolutionary rebellion in Beijing, and the tumult of last autumn and winter in some socialist countries, it is very necessary and meaningful for us to take a look back at the ideas of Mao Zedong regarding the prevention of peaceful evolution. We should look at other related aspects of his thought as well.

In his later years, Mao Zedong committed serious leftist errors in his guiding ideology, which eventually led to the launching of the Great Cultural Revolution. The Communist Party Central Committee's "Resolution on Several Historical Issues in the Period Since the Founding of the Nation" has already drawn a conclusion on this matter. This "Resolution" was completely correct. Today, under the guidance of this "Resolution," we need to carry out a concrete analysis of some aspects of Mao Zedong's ideology in his later years. We should resolutely reject those elements that are indeed erroneous, accept and learn from those elements that have been proven by practice to be correct or basically correct, and analyze those elements that are a mixture of the correct and the erroneous, holding on to the correct parts and

culling out the erroneous. The arguments of Mao Zedong regarding the prevention of peaceful evolution and other related aspects of his thought are things that should be studied and researched well.

I. Preventing Peaceful Evolution

When the American John Foster Dulles first proposed the strategy of changing the socialist countries through peaceful evolution, Mao Zedong perceptively observed this issue and zeroed in on it. He first educated high-level cadres within the party and later the people of the entire nation and raised their level of alertness to the intention of Western imperialists to change the socialist nations through peaceful evolution. The materials that we have located indicate that Mao Zedong first brought up this issue in November 1959 in a small meeting he had called. He printed up and distributed several articles written by Dulles, said that they were about peaceful evolution, and asked everyone to read them. He said that Dulles wanted to use something he called "law and righteousness" instead of military force. Dulles said, "It is extremely important for us to realize that renouncing military force under these circumstances does not mean acceptance of the status quo; rather, it means peaceful evolution." Change whom peacefully? Countries such as ours. They wanted to subvert us and convert us from within to an ideology amenable to their own. The United States wanted to maintain its own order and change ours. It wanted to change us peacefully and drag us into decadence. Mao Zedong also pointed out that there were sectors in our society that were receptive to efforts by Dulles to instigate peaceful evolution.

In 1964 Mao Zedong officially put the issue of preventing peaceful evolution on the agenda, and he proposed a series of practical steps that needed to be taken. As everyone knows, he spoke specifically about this issue on 16 June 1964 when he said, "The imperialists have no hope of affecting our first or second generation, but when it comes to the third and fourth generations there is hope. Will the words of imperialists have any effect? I hope not, but it's possible." In many different situations afterward, and before many different types of audiences, he spoke many more times about this subject. He warned people, "Our country is not so peaceful. There are still corrupt elements and speculative elements. There is still a danger of peaceful evolution."

It has now been 30 years since Mao Zedong raised the issue of peaceful evolution in the late 1950's and early 1960's. These 30 years of history fully demonstrate that Mao Zedong's concern about this issue was extremely important and far-sighted.

It is a historical fact that, when the imperialists failed to defeat socialism with military force, they changed tactics and attempted to use peaceful evolution to achieve their objective of destroying socialism. They have carried out economic, political, and cultural infiltration. They are using decadent bourgeois values to influence our people, especially the younger generation, and they are searching

for and cultivating people within the socialist countries who will represent their interests. The people they seek out are dissenters and oppositionists. They are especially assiduous in searching for such agents within the Communist Party. One should be aware that the international standoff and struggle between the social systems, and the struggle between peaceful evolution and its countermeasures, are long term. As long as imperialism exists, their plots to change socialist countries through peaceful evolution will not cease. Their ultimate dream is to destroy socialism. In this respect they will never change. For this reason, we cannot afford to be unclear in our ideology. As we implement the program of reform and opening up, we must be all the more alert to the danger of peaceful evolution. We must also be aware that now that the international situation has undergone new changes, in addition to putting pressure on China through economic sanctions, they will step up efforts to carry out their strategy of peaceful evolution. We must be fully prepared ideologically to uphold the socialist system resolutely and unwaveringly under any circumstances. The fundamental theory behind Lenin's concept of imperialism has not lost its relevance. Just as before, it is still monopoly capital and a small number of financial barons who hold ultimate control over capitalist nations, and now they have developed beyond their own countries into multinational entities. Since World War II many former colonies have gained independence, but capitalist imperialist countries have exported capital to their former colonies in the Third World, and the fundamental fact of economic exploitation remains unchanged, and the original conflicts within the capitalist world have not been eliminated. We must also be aware that the imperialist strategy of changing socialist nations through peaceful evolution could become, under certain conditions, non-peaceful and violent. For this reason, under new historical conditions we must learn to use both peaceful and nonpeaceful means to deal with their peaceful and non-peaceful designs on socialism.

It is a long-term historical task belonging to several generations to prevent and oppose peaceful evolution, uphold the socialist system, and defend the socialist people's republic. We should educate the entire party and the people of the whole nation, especially youth, about this issue, and we should take corresponding measures.

II. Remaining Alert to the Appearance of Revisionism Within the Party and, in Particular, Within the Leadership

It should first be stated that, when Mao Zedong in the early 1960's spoke of the need to remain alert to the appearance of revisionism within the central leadership, his appraisal of the situation within the party was mistaken. The revisionism of which he spoke was vaguely defined. He continually expanded the concept of revisionism, labeled revisionist many things which were not, and even criticized as revisionist many things which were Marxist or socialist in principle, thereby throwing ideology into chaos. However, we should approach this

issue analytically. If we research the statements of Mao Zedong on this subject, we can see that he generally equated revisionism with capitalism. He said, "Revisionists are those who are taking the capitalist road. Revisionism is a capitalist thing." Speaking to a delegation from abroad in 1964, he stated it in even clearer terms. "What is revisionism? It is bourgeois thought, politics, economics, and culture." If you view revisionism as advocacy of taking the capitalist road, then you cannot but regard as farsighted Mao's view of the need for awareness of the possible appearance of revisionism within the party (and particularly in the leadership) as an item of strategic importance and a major theoretical and practical problem. External factors only play a role in combination with internal factors. The success of capitalist countries in changing socialist countries through peaceful evolution is determined by factors within the socialist countries, the most important of which is whether or not the Communist Party, the leadership in particular, adheres to Marxism. Mao Zedong's foresight in the 1960's was corroborated by events in the late 1980's. As Mao Zedong stressed, "Leaders and leadership groups are very important. Oftentimes when leaders change, the entire country changes drastically" (spoken in August 1965). In view of international and domestic experience, the Communist Party Central Committee now emphasizes that leadership groups in the party from the central to the local level must be firmly in the hands of people who are faithful to Marxism. This point is very important.

There is also the issue of fighting corruption within the party. Mao Zedong was always very concerned about this problem. In 1944 he had Guo Moruo's *On the 300th Anniversary of the Year of Jiashen* published and required that the whole party study it and take it as a warning against certain errors. During the Second Plenary Session of the Seventh CPC Central Committee in 1949, he stated the need to remain alert to the danger of sugar-coated bullets. In the early postliberation period, he launched the "three anti" and "five anti" campaigns. All of these actions were taken in order to prevent and resist corruption within the party. Thus, politics in China in the 1950's were relatively clean and the prevailing social climate was also relatively good. The people were satisfied with this. Although the socialist education movement carried out in the 1960's in some rural villages and at the grassroots level in a small number of cities was carried out under the guidance of "leftist" ideology and "took class struggle as the key link," it nevertheless did much to resolve the problem of cadre misconduct and to improve relations between the party and the masses. Mao Zedong never let up in his struggle against greed, bribery, abuse of power, bureaucratism, and other forms of corruption within the party. He would not countenance these disgusting phenomena. Mao Zedong's arguments with regard to this subject should be studied earnestly.

We firmly believe that as long as the party upholds Marxism-Leninism and Mao Zedong Thought unwaveringly implements correct policies, remains sound, and

links up closely with the masses, it can withstand pressure and temptation from any hostile force, prevent peaceful evolution, and emerge victorious. On the contrary, if the party cannot adhere to Marxism-Leninism and Mao Zedong Thought, cannot remain sound, cannot eliminate corruption, and if it becomes divorced from the masses, then the forces that oppose socialism will surely take advantage of our party's weaknesses and the conflicts between the party and the masses to foment unrest and achieve their criminal intent to subvert socialism. This lesson is an important one and should be committed firmly to memory.

III. Struggle Within the Ideological Sphere

The unrest and counterrevolutionary rebellion that occurred in China during late spring and early summer last year were the result of the rampant spread of bourgeois liberalization over a long period of time in the ideological sphere. The first signs of liberalization appeared during the meetings to discuss theoretical issues called in early 1979. The Xidan Democracy Wall also appeared at that time. In the 10 years since then, although Comrade Deng Xiaoping has reminded us many times that we must promote the four basic principles unapologetically in full knowledge of their correctness, and take a clear stand against bourgeois liberalization, important individual party leaders have not been able to adhere to and act upon the viewpoint of Comrade Deng Xiaoping. They did not act forcefully to rein in and struggle against bourgeois liberalization, were weak and yielding, and they even encouraged and supported it, with the result that the tide of bourgeois liberalization rose higher and higher until it finally led to unrest and counterrevolutionary rebellion.

Mao Zedong once said, "Anyone who intends to overthrow a regime must first create favorable public opinion and prepare the way ideologically. This is true for the revolutionary classes, and it is also true for the counter-revolutionary classes." New historical experience has further proven the correctness of this statement. If we are to defend and consolidate the people's democratic regime, we must use Marxism-Leninism and Mao Zedong Thought to take control of the ideological and public opinion front. In the same manner, those who subscribe to bourgeois liberalization and dream preposterously of subverting the socialist system are also pulling out all the stops in their attempt to take control of the ideological and public opinion fronts in order to prepare the way for their plot to seize power. Some people in socialist countries who hold dissenting political views always begin in the ideological sphere by working vigorously to influence public opinion. They spread propaganda about capitalist democracy, freedom, and human rights as well as bourgeois values. They attack and negate Marxism and besmirch the socialist system. Furthermore, when imperialists work to change socialism through peaceful evolution, they make a special effort to carry out infiltration in the ideological and cultural spheres. It is worth noting that plots against socialism have always begun with an academic theory,

and from there the plot develops into a political issue, finally precipitating the formation of a political opposition force. It is this way in China, and it is also this way in some other socialist countries.

Here there is a question of how to correctly handle the relationship between issues of academic theory and political issues. Perhaps we can view the question in this way: There are distinctions and links between these two things. It would be a mistake if we failed to distinguish between them and dealt with issues involving academic theory the same way we deal with political issues. We have committed this type of error in the past and should not repeat it, because to do so would not benefit theoretical and academic development, and would even smother it. At the same time, if we are not cognizant of the links between them and allow unrestricted freedom in the area of theoretical and academic issues and countenance the spread of mistaken, harmful academic views, that would also be wrong. Some issues, such as humanism, alienation, and values, appear on the surface to be purely academic, but if we allow bourgeois liberal views on these subjects to spread unchecked, it would have a corrosive effect and would gradually shake the theoretical foundation of Marxism. Correctly handling the relationship between these two aspects is a difficult and complex matter and must absolutely not be oversimplified. It would be very beneficial to take another look at something Mao Zedong said: "Without a doubt, we should criticize all manner of mistaken thought. It would, of course, be wrong to stand by while mistaken ideology runs rampant without criticizing it, allowing it to control the market. Where there is error you must criticize it, and where there are poisonous weeds you must struggle against them. This criticism should not be done in a dogmatic or metaphysical way, though. We should strive to use the dialectical method. We must use scientific analysis, and we must be persuasive. Dogmatic criticism cannot resolve the problem" ("On Correctly Handling Contradictions Among the People").

Another question involves how to correctly view the "double hundred" program. There are two diametrically opposed understandings. According to Marxist understanding, the purpose of letting a hundred schools of thought contend is to develop Marxism, and to consolidate and expand the Marxist ideological front. The other understanding is that of the followers of bourgeois liberalization. They also trumpet the "double hundred" cause and make a lot of commotion, but their real motive is to spread the concepts of bourgeois liberalization in order to attack and negate Marxism. Mao Zedong said, "In the slogan 'let a hundred flowers bloom and a hundred schools of thought contend,' the words themselves have no class nature. The proletariat can use them, the bourgeoisie can use them, and so can other people. Every class and social grouping will have its own view of what is a fragrant flower and what is a poisonous weed" ("On Correctly Handling Contradictions Among the People"). Thus, at the same time that Mao Zedong introduced the "double hundred" program, he also introduced six standards by which to judge our words and actions. The most

important of these standards were the two requiring adherence to the socialist road and the leadership of the party. Today those six standards, and particularly the ones involving adherence to the socialist road and the leadership of the party, are still the standards by which to judge people's words and actions. However, for a time the six standards came under attack from some people who said that they smothered the development of academic theory, fettered people's thought, and so forth. This is precisely a liberalist viewpoint, and it should be dispelled. When Mao Zedong received a visit from Edgar Snow in October 1960, Snow said, "Western newspapers say you began to implement the 'double hundred' policy in 1957 because you thought the party's prestige had been well consolidated and that no one would express dissent, but that after the campaign got under way you quickly found that there were a lot of dissidents so you stopped the campaign." Mao Zedong replied, "What you say is partly correct and partly incorrect. You say we stopped letting a hundred flowers bloom, but we haven't. We are in favor of a hundred socialist flowers blooming. That's how it has been from the start. Socialist and capitalist flowers can't all bloom." Here Mao Zedong expressed his view very clearly.

When discussing ideology, we cannot turn a blind eye to Mao Zedong's mistakes. He overestimated the seriousness of issues in the ideological sphere. He almost totally negated achievements in literature, art, theater, cinema, and the fine arts during the 17 years prior to the Cultural Revolution. His criticism of some harmless and even superior works of art, as well as some representative personages from the arts community, was mistaken and excessive. This criticism also extended to philosophy, history, economics, and education, and he put too much emphasis on class struggle in the ideological sphere. All of these things were mistakes which must without a doubt be corrected, but the purpose of learning from past experience is to better enable Marxism to control the ideological front, and it should not push us to the opposite extreme of relinquishing our position on the ideological front and ignoring ideological work. Mao Zedong paid close attention to ideological and political work. It was a fundamental part of his thought, and we should study it, retaining those of his arguments on ideological issues which are correct, good, and rational, and culling out the mistakes. We can use it to guide our work today in this area.

[No 10, 5 Oct 90 pp 30-32] [Text] IV. Class Struggle in a Socialist Society

Does class struggle still exist in a socialist society? What is the situation of class struggle in socialist society? What is its position vis-a-vis the various other conflicts in socialist society? Is the method of class analysis still valid? All of these questions touch upon major theoretical issues in Marxism-Leninism, and upon major issues in the practice of socialism. Drawing upon actual experience in China as well as that of other socialist countries, Mao Zedong used almost all his energy in his later years to carry out an arduous exploration into this

question. In the process of his exploration he traced a winding and tortuous path. He made important contributions in this area and left behind a rich body of theory; he also committed serious mistakes which led to an expansion of the class struggle and the launching of the Cultural Revolution, bringing disastrous consequences upon the nation. This is a very complex issue. We should analyze the issue with a clear head and a scientific attitude, holding on to the beneficial things that can serve as ideological weapons to guide our progress. At the same time, we should reject the mistakes and avoid repetition of earlier errors.

Mao Zedong studied the situation of China after the completion of the socialist renewal and came to believe that classes and class struggle still existed in socialist society; the content of this struggle was primarily a struggle between two paths, socialism and capitalism; this was a long-term struggle; and the danger of capitalists returning to power in socialist society still existed. He stated that we needed to clearly understand this issue, study it, and raise our level of alertness, or else our country could still move toward the opposite extreme of capitalism. He said that if we were too complacent the bourgeoisie would seize power and restore capitalism. He emphasized the need to educate youth, saying, "Our youth don't know the old hardships. They haven't been toughened by class struggle, so we have to depend on the older generation to tell them about the past and educate them" (spoken to a foreign delegation in 1963). After the political unrest in China and the tumult in some socialist countries last year, Mao Zedong's words ring as true as ever. The course of history has proven, and will continue to prove, that these statements of Mao Zedong's were correct even if certain things he said require further study.

Class struggle within socialist society is always linked to international class struggle, and the two feed upon each other. By no means can we overlook the impact of international class struggle upon domestic events in socialist society. The strategy of peaceful evolution is an important form of international class struggle. When he talked about class struggle within China, Mao Zedong also talked about international class struggle and always stressed each equally. For example, in the "Sixty Points Regarding Work Methods (Rough Draft)" of 1958, he said, "On the one hand there is serious class struggle between the socialist world and the capitalist world. On the other hand, in China classes have not yet been eliminated, and class struggle still exists. These two points must be fully taken into account." It is incorrect to say that classes in China have not been eliminated, but his reminder that we must fully take into account the existence of domestic and international class struggle was extremely important.

Mao Zedong made two main mistakes with respect to social classes under socialism. First, he overestimated the seriousness of class struggle in China and he expanded class struggle too far. Second, after the exploiting class had already been eliminated as a class, he

still regarded class struggle and the struggle between the two paths as the main conflict in the historical stage of socialist society. This caused him to introduce the mistaken theories of "taking class struggle as the key link" and "the continuing revolution under the dictatorship of the proletariat." There is no doubt that we should reject these things.

After the Third Plenary Session of the 11th Central Committee, the mistake of "taking class struggle as the key link" was criticized and corrected. The focus of the party was shifted to economic construction, and the party's political line in the new historical period was established. This was completely correct, and we should adhere unwaveringly to it. However, because in the past several years we have only criticized "taking class struggle as the key link" and have not spoken (or spoken little) of class struggle, anyone who made any mention of class struggle would be viewed as "taking class struggle as the key link." What is worse, anyone who used the method of class analysis to talk about the Chinese revolution would be accused by some of "taking class struggle as the key link." From this, it is apparent just how confused ideology had become. The climate of public opinion had greatly weakened some people's concept of class struggle, and some had even lost the concept altogether, with the result that during last year's unrest they did not recognize it as a serious outbreak of class struggle. They lost their sense of direction, wavered, and even took erroneous stances. For example, some feel that if only the government had yielded a bit, granted the students' demands, acknowledged that the students' mistaken actions were patriotic and democratic, and acknowledged the legality of the Independent Federation of University Students in Beijing, then the affair could have been concluded satisfactorily. This hope was kind-hearted but naive. They did not understand that if the party and the government had yielded any further, the instigators of unrest would inevitably have made more demands, applying more and more pressure until finally demanding that you turn over your power to them. This is the law of class struggle, and it cannot be altered by will or kind wishes. China's unrest and Beijing's counterrevolutionary rebellion proved once again that, within a certain scope, class struggle still exists in socialist society, and that under certain conditions a life-or-death class struggle can be ignited.

The weakness of the concept of class struggle has also manifested itself in the loss of alertness to peaceful evolution. In the face of Western bourgeois ideology, we have disarmed ourselves. The boundary between the two ideologies has become blurred, and what is worse, many have become prisoners of war to Western bourgeois ideology.

China's unrest and Beijing's counterrevolutionary rebellion also proved the necessity of upholding the dictatorship of the proletariat—that is, the democratic dictatorship of the people—in socialist society. Lenin once said that acknowledging class struggle alone does not make one a Marxist; only those who acknowledge both class

struggle and the dictatorship of the proletariat are Marxists. This holds true to this day. Imagine for a moment if we had not decisively used the state—the instrument of the democratic dictatorship of the people—to rein in the unrest and quell the counterrevolutionary rebellion. Would the People's Republic not have been in danger of being overthrown? Political power is still the fundamental issue, and when class struggle develops to a certain point it becomes openly manifest. In socialist countries, this issue was not dispatched forever with a single easy blow. For all we know, the political power that the people have gained could still be lost through violence or peaceful evolution. Mao Zedong once said to a visiting foreign delegation in 1963, "If the proletariat, which has gained political power, is not vigilant, reactionaries could still seize power again." From today's perspective, this statement rings very true.

The fact that we affirm some correct, far-sighted, and incisive aspects of Mao Zedong's thought regarding class struggle does not mean that we intend to affirm all of his thought on the issue of class struggle in socialist society. The expanded class struggle which occurred under the guidance of the mistaken theories of "taking class struggle as the key link" and "the continuing revolution under the dictatorship of the proletariat" caused tragic losses to the party, the country, and the people. People remember this as if it were yesterday, and should not forget it. With respect to the issue of class struggle, we must press the struggle along two fronts. First, we should oppose the expansion of class struggle. We should oppose the view that class struggle is the main contradiction in socialist society, which would change the political line that was established by the party in the Third Plenary Session of the 11th Central Committee and which set forth economic construction as the party's main focus. Second, we should oppose the theory that class struggle has been extinguished. We should oppose the mistaken view that we have completely and thoroughly resolved the question of who will win and who will lose in the struggle between the two paths.

V. The Relationship Between Politics and Economics

Mao Zedong's statements in one section of the "Sixty Points on Work Methods (Rough Draft)" can be used to sum up his basic thought on this issue. He said, "There is no doubt whatsoever about the unity of politics and economics or the unity of politics and technology. This is so every year, and shall continue to be so forever. That is what is meant by the phrase 'both red and expert.' The term 'politics' will still be used in the future, but its content will have changed. If you do not pay attention to ideology and politics and only worry about your work all day, you will become an economist or a technician without any sense of direction. That is very dangerous. Ideological and political work ensure the successful completion of economic and technological work. They are carried out for the sake of the economic base. Ideology and politics lead everything. They are the heart and soul.

If we let up just a little on ideological and political work, economic and technological work will certainly stray off onto a dangerous path."

These things have not been said in a long time. Even though certain things he said may call for further study, his fundamental viewpoint was in line with Marxism.

Later, Lin Biao distorted Mao Zedong's correct arguments on the relationship between politics and economics as well as on politics and one's work. Lin Biao introduced the slogan of "putting politics above all else." He said that politics could take the place of everything else, and that politics had more force than anything else. Making an absolute of political work led the political work of the party onto a dangerous path, seriously affected and impeded economic and other work, and caused serious losses to the cause of socialist construction.

However, after "putting politics above all else" was criticized, another tendency appeared. Political and ideological work was weakened and even eliminated. Practically anyone who spoke of strengthening ideological and political work would be accused of extreme leftism. People openly advocated and praised individualism and the pursuit of individual fame and riches, while things which demonstrate communist ideology, such as serving the people and the spirit of Lei Feng, became the objects of ridicule. At that point all sorts of mistaken ideology spread rampantly, and decadent bourgeois ideology began to seep in. The prevailing climate within and outside the party, and society as a whole, was corrupted. The moral quality of people fell. Ideological and political work, which are such a powerful force of motivation, were originally one of the big advantages of this socialist nation of ours, but this advantage has been almost completely squandered away.

The Third Plenary Session of the 11th Central Committee established a political line which takes economic construction as its focus, and we must implement and enforce it unwaveringly. However, "the focus" is not synonymous with "the only thing." If we do nothing but work at the economy, our economic work will not be successful and will even stray off onto a dangerous path. We cannot subscribe to the idea that willpower is the only thing, nor can we subscribe to a vulgar materialism. We must bring into play the ability of political and ideological work to ensure the success of other work, as well as their power to motivate. This is the inevitable demand posed by socialism's system of public ownership. Of all the factors of production, people are the most dynamic. Full utilization of people's enthusiasm is an enormous productive force. In the past few years, many localities have relied exclusively on material incentives such as bonuses to tap people's enthusiasm, but they have not had good results. Bonuses have gone up and up, but enthusiasm and labor productivity have not increased correspondingly, and they have actually fallen in some localities and sectors. Some people rely purely on the principle of material interest when considering

ways to improve enterprise management and raise labor productivity and economic returns, while they overlook or simply ignore the role of political work and ideological education. Furthermore, the material interests they speak of are individual and short-term, not collective, national, or long term. In addition, some people have sung the praises of "always looking toward money," which has not only had a corrosive effect upon the working class, but could also lead the reforms onto a mistaken path. On the one hand, we must give the people tangible material benefits. While developing production, we must work to raise standards of living. On the other hand, we must also educate the people ideologically. "We are in favor of a social spirit which measures all words and actions on the basis of a principle that combines collective and individual interests." Strengthening ideological and political work is an indispensable part of the effort to develop the socialist economy and improve enterprise management.

VI. Defending National Sovereignty and Pride

The Communist Party Central Committee's "Resolution on Several Historical Issues Since the Founding of the Republic" stated that Mao Zedong "in his later years still alertly worked to defend China's security, and he withstood pressure from socialist imperialism." The socialist imperialism mentioned here refers to the superpower chauvinism of the leaders of the Soviet Union at that time. Mao Zedong fought for the greater part of his life for the liberation of the Chinese people and the construction of a New China. He was the principal creator and defender of the New China, and he was the greatest national hero in China's history. His activities and ideological principles connected with the defense of national sovereignty and pride are an important ideological legacy that he has left for the Chinese people. First, he warded off pressure and attempts from all outside sources to control China. For example, in 1958 the Soviet Union's leaders, in an attempt to control China's seacoast, proposed the establishment of a joint fleet and a long-wave radio station, but Mao Zedong foiled this strategy. Second, he emphasized that China needed to establish an independent and relatively complete industrial system and national economic system. He formulated a program in which China would rely for its development primarily on its own resources and only secondarily on foreign aid. This program included both economic and political aspects. The Chinese revolution carried out this program and attained victory by it. In the same manner, we implemented this program in our economic construction and attained results that gained worldwide attention. Mao Zedong said, "We fought the revolution on our own, and we will reconstruct on our own. Of course we will not refuse foreign aid, but self-reliance comes first and foreign aid is second" (spoken to a visiting foreign delegation in 1963).

How did Mao Zedong introduce the program of self-reliance first, foreign aid second? Mao Zedong said that, at that time, "because we didn't have any experience, we copied wholesale from the Soviet Union in our economic

construction. This was especially true in heavy industry, where we copied almost everything from the Soviet Union and created very little ourselves. This was completely necessary at that time, and it was also a shortcoming. We lacked creativity and the ability to maintain our autonomy. This wouldn't do as a long-term strategy, of course. In 1958 we established the program of self-reliance first, foreign aid second" ("Speech to the Enlarged Session of the Central Committee Work Conference"). He also said, "You cannot depend on others for everything. You have to have high goals and the will to achieve them. Aid and assistance from foreign countries is alright, but they can't interfere in your domestic affairs" (conversation with a foreign visitor in 1960).

China is now pursuing a policy of opening up to the outside world, and the situation is very different from what it was for Mao Zedong back then; so, is his program of self-reliance first, foreign aid second still applicable? The answer is affirmative.

Self-reliance does not mean locking the country away from the world. When speaking of the former situation it is necessary to analyze a few points. At that time it was other countries that first closed their doors to us, but even in the midst of the Cultural Revolution we still spent \$4.3 billion to import advanced technology and equipment from abroad, thereby breaking out of the blockade and embargo that been imposed upon us for many years by Western countries. Later, as the international situation changed, and after the Third Plenary Session of the 11th Central Committee, we implemented the policy of reform and opening up.

The policy of opening up to the outside world is completely correct, and we must do a better job of it in the future. We hope to receive foreign assistance in the form of loans, advanced technology, and so on. However, first, just as Mao Zedong said, we can and should accept foreign aid and assistance, but we cannot let foreign countries interfere in our internal affairs, and second, we cannot completely rely on foreign assistance. After all, the purpose of taking loans and importing advanced technology from foreign countries is to increase China's autonomy and self-reliance, not to lessen it.

China is still relatively backward and thus often suffers humiliation and pressure. This is still true today. We are under heavy psychological pressure. As early as 1958 Mao Zedong said, "China's economy is backward and its material base is very weak, which puts us in a passive position. Psychologically we feel a kind of restraint upon us. In this respect we have not yet been liberated" ("Sixty Points on Work Methods" (Rough Draft)). What he said reflects the urgent need of the Chinese people to overcome as quickly as possible their poverty and backwardness and to stand up alongside the other nationalities of the world. Mao Zedong naturally felt these sentiments more deeply than most people. Of course, his resultant impatience to move forward without regard to objective conditions was incorrect. However, the desire to become stronger, the determination to struggle for that goal, and the dissatisfaction at China's backward state all demonstrate national pride and patriotism. These things, and the will to catch up with the developed nations of the world, are things we cannot do without. The spiritual legacy left behind by Mao Zedong in this area is something we should inherit and build upon.

NATIONAL AFFAIRS, POLICY

Commission Analyzes Strengthening Enterprise Management

9ICE0031A Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 8, Aug 90 pp 23-25

[Article: "Emphasis Must Be Put on Conscientiously Dovetailing New Enterprise Contracts with Old Ones—Suggestions From the State Restructuring of the Economic System Commission on Deepening Enterprise Reform and Strengthening Enterprise Management, as Passed On by the State Council"]

[Text] The State Council recently issued a circular, which passed on the State Restructuring of the Economic System Commission's "Suggestions for Deepening Enterprise Reform and Strengthening Enterprise Management During the Period of Improving the Economic Environment and Rectifying the Economic Order." The circular emphasized that 1990 is a crucial year for improving the economic environment and rectifying the economic order, in which enterprises are faced with heavy work loads, and all areas and sectors must conscientiously carry out the tasks of deepening reform, bringing the key role of large- and medium-sized enterprises into full play, strengthening enterprise management, and improving economic efficiency, that were laid out in the "CPC Central Committee Resolution on Further Improving the Economic Environment, Rectifying the Economic Order, and Deepening Reform." In accordance with the State Council's "Provisional Regulations on the Contract Management Responsibility System in State-Owned Industrial Enterprises," new enterprise contracts must be conscientiously dovetailed with old ones, and the opportune time must be seized to perfect the contract management responsibility system, in order to enable it to play a bigger role in the process of improving the economic environment and rectifying the economic order. Deepening of enterprise reform must be combined with strengthening of enterprise management. Economic responsibility systems and all accessory reform measures within enterprises, large- and medium-sized ones in particular, must be further improved, all basic management work must be reinforced, and management modernization must be moved forward. All staff members and workers must be mobilized to take part in the arduous struggle, increase output and practice economy, improve product quality, reduce material consumption, restructure product mix, fully tap potentials, improve economic efficiency, and contribute more to the state.

The State Restructuring of the Economic System Commission made the following seven suggestions.

I. The Enterprise Contract Management Responsibility System Should Continue To Be Maintained and Perfected

Enterprises whose contracts have already expired or will expire at the end of 1990, should be audited according to

contract management responsibility system regulations and contract provisions, and enterprises and managers should be realistically evaluated to provide a basis for the new round of contracts. Based on these audits, enterprises should be classified according to those which can roll over, extend, or sign a new round of contracts. Close attention should be paid to the signing of contract management responsibility system contracts, in order to stabilize enterprises and public morale, and keep production from being affected adversely. The importance of contract management responsibility system contracts must be preserved. Once enterprises are classified through full audits, those which are found able to tap their own potentials and surpass their contract targets, must fulfil their contracts without fail; those which are unable to fulfil their contracts because their normal production has been severely affected by external factors and their profits have fallen, should be treated realistically and with discretion; those which are unable to fulfil their contracts due to poor management and administration, must be made to make up what they owe; those which have earned higher profits due to increases in product prices, must not be allowed to use their increased production development funds for extra consumption; those which resort to deception by falsely reporting profits when they have actually incurred losses, must return all management bonuses and be subjected to economic penalties. Forms and time limits for the new round of contracts should be differentiated according to the various conditions. For enterprises which conform to national industrial policy, large- and medium-sized key ones in particular, a contract form of "two guarantees and one link" should be mostly used (i.e., both the amount of profits to be paid to the state as well as technological upgrading tasks should be guaranteed, and payrolls should be linked to economic efficiency), and profits can be paid to the state either through progressive increase responsibility or base responsibility with super-profit sharing; enterprises whose five-year development and technological upgrading plans have already been set, can be contracted through the end of the Eighth Five-Year Plan; particular forms and time limits for other enterprises can be set according to actual conditions. A spirit of participation in the contracting process by all personnel should be reflected. Rational contract bases for contract extensions or new rounds of contracts, should be evaluated and set based on the importance and desired results of technological upgrading tasks and the demands of industrial policy. Contractors should be selected according to the principle of "maintaining a stable majority with a very few changes." As long as original contract managers fulfil their contracts, do not violate the law or discipline, are fairly united with their leading bodies, and are supported by their staff members and workers, their contracts can be continued. The methods of entrusting the task to higher level responsible departments, competitive bidding, or democratic elections can continue to be used for enterprises whose managers need to be replaced. In competitive bidding and democratic elections, personnel departments must organize administrative investigations by fully soliciting

opinions from official representative assemblies, staff members, and workers. Assessment of target fulfillment is mainly assessment of enterprise fulfillment of realized profits, profits paid to the state, and technological upgrading targets, as well as fulfillment of key targets, such as directive state plans, product quality, material consumption, intact equipment rate, and production safety. These may not be "arbitrarily replaced" by other targets. Under present conditions, contractees should still be represented by government-appointed departments. All other concerned departments which take part in issuing contracts, should examine all relevant contract provisions that are within their jurisdiction, and define each responsibility and commitment that is to be carried out, so that enterprises will fulfill their contract obligations. As to enterprises which undertake mostly directive plan tasks, concerned departments must do everything possible to provide them with the necessary materials, power, transportation, and marketing plans, and conclude with them "all-inclusive" contracts that cover supply, production, and marketing. Departments in charge of enterprises are responsible for safeguarding the legal rights and interests of enterprises, helping managers exercise their powers according to law, and resisting all apportionments. In order to increase the capability of enterprises to withstand losses, qualified areas could try out a system of mutual aid funds for contracted enterprises, that is based on the principles of "voluntary participation, compensated use, mutual aid and mutual benefit, and joint risks," and in which participating contracted enterprises deduct a fixed percentage of funds from their retained profits, to be centrally controlled by local finance departments. When these enterprises are unable to fulfil their contracted tasks, they will make up what losses they can out of their own funds first, and the rest from borrowed enterprise contract mutual aid funds which they will have to repay. Based on the principle of not changing state ownership of enterprise funds or the current financial system, all areas could try out a separate system of accounting for enterprise funds. The keys to perfecting our existing system of contracting whole companies or departments, will be putting the contract management responsibility system into effect for doing a good job of handling their responsibilities, rights, and profit relations with, as well as increasing the management decisionmaking power of, their subordinate enterprises.

II. Enterprise Restraint Forces Should Be Strengthened

Economic supervision over contracting enterprises should be enhanced. Enterprises must strictly enforce state pricing policies, and may not arbitrarily spread out costs, increase nonbusiness expenses at will, cut out and keep or divert profits, or falsely report profits when they have actually incurred losses. Enterprises should use their retained profits to guarantee technological upgrading, production development, and circulation fund supplement needs. Based on differing enterprise conditions and per capita retained profits, various areas could use different rates to appraise and set particular

production development fund percentages for each enterprise, which should be included in contracts and not squeezed out for other purposes. Although all enterprises which use the contract management responsibility system should link payrolls to fluctuations in economic efficiency in principle, the payrolls of those that do not must be partly in cash and partly in kind. In addition to assessing major targets that link payrolls to economic efficiency, enterprises that link payrolls to efficiency must also assess targets, such as product quality, material consumption, production safety, and labor productivity. Enterprises in which payrolls are linked to economic efficiency must set up reserve fund systems to make up losses with surpluses. During the period of improving the economic environment and rectifying the economic order, managers' annual incomes must generally be kept within 100-200 percent of the average annual income of the enterprise's staff members and workers, and may not exceed 300 percent that of staff members and workers' average annual income even for the few enterprises which achieve outstanding successes. Managers must be audited before their contracts are considered fulfilled, and deductions must be taken from those who are unable to fulfil their contracts. Contracted enterprises which put up venture guarantees may not regard them as profits to be shared. Venture guarantee funds are guarantees of limited compensation when contracted enterprises cannot fulfil their contracts, and can be used for enterprise activity fund turnover. After the leased management contracts of small industrial enterprises expire, this system can continue to be improved, with the key being to set reasonable leasing fees. During the period of improving the economic environment and rectifying the economic order, the incomes of leaseholders must generally be kept less than 300 percent that of the average annual income of the enterprise's staff members and workers, and may not exceed 500 percent even in exceptional cases. The incomes of other personnel in leased enterprises must be suitably lower than those of the leaseholders.

III. All Means Should Be Used To Invigorate Large- and Medium-Sized Enterprises

According to the demands of industrial policy and in line with power, raw materials, transport, and fund possibilities, a list of which large- and medium-sized enterprises need to be guaranteed, and all-inclusive guarantee plans for them, should be drawn up and put into effect. No departments may intercept and keep funds, power, raw materials, or transport which are allotted to key large- and medium-sized enterprises, and the economic responsibility of violators must be investigated and affixed. According to the demands of industrial policy, and in all links of the technological upgrading process, from establishment and fundraising to construction, the completion of technological upgrading projects in a number of key large- and medium-sized enterprises must be guaranteed. Decisionmaking power over production operations must be given to large- and medium-sized enterprises according to law. Quotas in state-assigned

directive plans for large- and medium-sized enterprises may not be raised at each level. After completing directive plans, enterprises have the right to sell the rest of their products independently, according to state-stipulated independent marketing percentages and pricing policies. A few large- and medium-sized enterprise groups with strong economic capabilities and products that are internationally marketable should be chosen and given foreign exchange decisionmaking power, so that they can earn more foreign exchange for the country.

IV. Accessory Reforms Within Enterprises Should Be Deepened

The "Enterprise Law" must be adhered to conscientiously, and the factory director (manager) responsibility system must continue to be upheld and perfected. A common understanding must be reached, so that effective steps are taken to safeguard the legal rights and interests of factory directors (managers), and to ensure that they can exercise their functions and powers normally according to law. The ideological and political leadership role of party organizations must be brought into full play, party and state principles and policies on ideology, organization, style, construction, guarantees, and supervision must be enforced within enterprises, and the socialist orientation of enterprises must be upheld. Enterprise party organizations must take part in discussions of key issues in enterprise production and management, by presenting views and making suggestions. Middle-level administrative cadres for enterprises can be nominated by factory directors or recommended by party committees and, after collective discussion by party and government leaders, can be appointed or dismissed by factory directors. The working class must be relied on wholeheartedly, and the democratic management role of official representative assemblies must be brought into full play. Accessory reforms within enterprises in areas such as personnel, labor, distribution systems, and the setting up of organizations, must be persisting and perfected. The management decision-making power which enterprises are endowed with by the "Enterprise Law," must be implemented conscientiously. Economic responsibility systems must be established within enterprises. Contracting within enterprises is contracting responsibly, rather than contracting simply for profits. Distribution within enterprises should conscientiously reflect rewards for hard work and superiority, but there should be penalties for indolence and inferiority. Competitive selection, appointment, and employment of the best must continue to be experimented with for managers at all levels. Workforces must continue to be reliably optimized, and well-to-do personnel must be absorbed mostly within enterprises.

V. Enterprise Management Should Be Strengthened, and Enterprise Quality Should Be Upgraded

As doing a good job of upgrading enterprises is a key way to strengthen enterprise management, experiences must

be summed up to further replenish and upgrade enterprises by emphasizing practical results in the following ways: 1) The priority and importance of upgrading criteria must be insisted upon. Departments may not issue new enterprise upgrading criteria in 1990, but must mostly amend and revise existing upgrading criteria. Existing national level enterprise criteria should be further graded and limited, and suitable ways should be studied to strengthen management and upgrade enterprises in the nonindustrial sector. 2) Enterprise upgrading should be focused on large and medium-sized industrial enterprises. 3) Much emphasis must be placed on reexamining upgraded enterprises. 4) Enterprise upgrading examination and appraisal methods must be perfected. Although all specialized management must be strengthened, upgrading specialized management should not be considered a prerequisite for enterprise upgrading. Although consultation and diagnosis should be carried out voluntarily within enterprises, they should not be regarded as essential procedures for enterprise upgrading. Basic management should be strengthened, on-the-spot production management should be emphasized, and management modernization should be speeded up.

VI. Organizational Restructuring of Enterprises Should Be Speeded Up

As enterprise mergers is a key way to organizationally restructure enterprises, governments at all levels must guide and promote enterprise mergers that are in line with industrial policy, by neither preventing subordinate enterprises from being merged, or forcing the burden of merging on superior enterprises. Merged enterprises should no longer be given tax reductions, profit concessions, subsidies, or other preferential policies. Under the current tight money conditions, the initiative of superior enterprises should be aroused to merge with inferior ones in the following ways: 1) State-owned enterprises in the same region can use the method of transferring assets; 2) State-owned enterprises from different regions can use the method of assuming liabilities to be repaid in installments; 3) Active steps should be taken to carry out mergers through absorbing and controlling shares; 4) Prices can be set for compensated transfer of assets; 5) Accounting can be not combined, and internal independent assessment can be used, for a specific period of time; 6) Mergers can be carried out in combination with enterprise contracting and leasing. Enterprise groups must be further developed, mostly in the following ways: 1) Group cores should be strengthened; 2) Groups must be more closely integrated; 3) Group links must be strengthened.

VII. Experiments in Shareholding Systems and Separation of Taxes from Profits Should Continue To Be Carried Out

Shareholding system experiments should continue to be carried out, based on various conditions and with the following approaches: 1) Shareholding systems in which enterprises hold each others' shares, should be actively

tried out; 2) Shareholding system experiments in which staff members and workers hold shares within enterprises, should not be further expanded; 3) New outlets for shareholding systems in which shares are sold to the public, should not be set up. Pilot projects in separation of taxes from profits should be conducted in a planned way and step by step. Experimental programs should help to increase state finances, while contributing to further arousing the initiative of enterprises, managers, and the vast number of staff members and workers, and strengthening enterprise growth stamina.

Survey Conducted on Double Guarantee Enterprises

91CE0022A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 20 Sep 90 p 1

[Article by Yang Kuankuan (2799 1401 1401), Zhu Jianping (2612 1696 1627), and Bao Yueyang (0545 2588 7122): "Survey by State Statistics Bureau, State Council Production Commission Indicates that 'Double Guarantee' Enterprises Are Better Than Regular Enterprises; Market Slump, Funds Shortage Affect Normal Functioning of 'Double Guarantee'"]

[Text] The State Council's Production Commission and the State Statistics Bureau, acting in accordance with the spirit of the National Production Work Conference and the State Council's Debt Triangle Resolution Conference, have proposed several measures in recent days to step up "double guarantee" work in the last half of the year.

First, they called for top priority to be granted to the resolution of funds problems for "double guarantee" enterprises. As the entire country organizes efforts to clear up debts, all localities must place a special emphasis upon supporting large- and medium-sized key enterprises, particularly "double guarantee" enterprises. Localities must facilitate enterprise efforts to coordinate production, supply, and marketing as well as the recovery of funds. They must be enabled to be the first to benefit from the nationwide resolution of debts. "Double guarantee" enterprises must also use a part of retained profits to supplement their operating funds. In order to avoid the situation in which enterprises clear their debts only to borrow again, banks must resume the method of reinstating collection bills from "double guarantee" enterprises as soon as possible.

Second, we must further strengthen marketing work and strictly enforce the state contract plan. Every department and the economic committee (economic planning commission) in every district must help enterprises to strengthen marketing work. When "double guarantee" enterprises have stocks of goods subject to unified state allocation piling up because the department which had ordered the goods is unable to accept them on schedule, materials departments must actively procure these goods. Banks must support these procurements with

loans, and they should offer low interest rates. Enterprises must organize production in accordance with the state plan and user demand, and they must fulfill state quotas for profit tax remittances. Goods in short supply produced by "double guarantee" enterprises in accordance with the compulsory state plan must first be used to fulfill planned allocations before they can be marketed directly by producers.

Third, we must strengthen enterprise management and improve economic benefits. Economic benefits for most "double guarantee" enterprises have dropped since the beginning of this year. All enterprises must shift the focus of work toward improving economic benefits. They must readjust their product mix in a timely manner in accordance with market developments in order to turn out marketable products. They must strengthen marketing, reduce piled up inventories, and raise their funds usage ratio. Finally, they must rely on technological progress to improve product quality, develop new products, and conserve energy and materials.

State Proposes Measures To Enhance Double Guarantee Enterprises

91CE0022B Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 20 Sep 90 p 1

[Article by Yang Kuankuan (2799 1401 1401), Zhu Jianping (2612 1696 1627), and Bao Yueyang (0545 2588 7122): "State Council Production Committee and State Statistics Bureau Propose Measures To Further Improve 'Double Guarantee' Work"]

[Text] The results of a periodic survey of 234 "double guarantee" enterprises carried out by the State Statistics Bureau and the State Council's Production Commission indicate that: production and operating conditions during the first half of this year have been better for "double guarantee" enterprises than for regular enterprises; the conditions required by "double guarantee" enterprises for production have generally been satisfied; but a market slump and the funds shortage are still serious problems which affect the ability of "double guarantee" enterprises to carry out normal operations.

The results of this periodic survey by the State Statistics Bureau and the State Council's Production Commission indicate that in terms of production, sales, profit taxes remitted to the state (or loss reductions received from the state), fulfillment of state contracts, and external conditions, operating conditions for 105 (44.9 percent) of the 234 enterprises were relatively good, while for 26 (11.1 percent) they were relatively bad, and for the rest they were fair. In terms of different industries, relatively successful "double guarantee" enterprises were engaged in electric power, petrochemicals, chemicals, nonferrous metals, petroleum, ferrous metallurgy, charcoal, and textiles. Light industry and producers of electrical machinery have been affected by inadequate demand and their operating conditions have been relatively bad.

Production and operations are better in "double guarantee" enterprises than in regular enterprises. The 234 enterprises covered by this study achieved a total industrial output (in current prices) of 148.7 billion yuan in the first half of this year, which was an increase of 3.6 percent over the same period last year in comparable prices. The rate of industrial growth for these "double guarantee" enterprises was 1.4 percentage points higher than for the nation as a whole. These firms achieved 143.0 billion yuan in profits on sales, an increase of 10.4 percent over the same period last year, which was clearly better than the negative growth of 0.5 percent posted by state-run industrial enterprises within the state plan. The amount of funds invested in manufactured finished products was 15.4 billion yuan, an increase of 37.9 percent. This rate of increase was 10.3 percentage points lower than for state-run industrial enterprises within the state plan. These enterprises fulfilled contracts for products subject to unified allocation by the state better than they did last year. They delivered a total of 90.8 billion yuan worth of state contract products, an increase of 14.3 percent over last year. The percentage of profits on sales accounted for by these products was 0.6 percentage points higher than in the same period last year.

In comparison with the same period last year, the output of 51 of 74 major products (68.9 percent) increased. Of these, output grew by more than ten percent for 33 products (44.6 percent). Over half of these 74 products, or 38 of them (51.4 percent), fulfilled their annual quotas. There were 24 products which completely fulfilled their state unified allocation contracts, and 20 products which fulfilled 90 percent of their contracts. Contract fulfillment rates for 25 nonferrous metal products were relatively low or dropped below last year's level. Remittances of profits taxes have not been ideal. Gross sales rose 7.5 percent over the same period last year, but profits dropped by 37 percent. Although profits dropped less for these enterprises than for state-run industrial enterprises within the state plan (55 percent), the figure was still far off the planned target. Only 29.3 percent of planned profits tax remittances were actually made in the first half of the year, and profits retained by enterprises also fell 18.5 percent from the same period last year.

The other aspect of the "double guarantee" policy—the principal conditions of production—were fundamentally well taken care of. Energy supplies were much better than last year. A total of 52.1 billion kilowatt-hours were supplied in the first half of the year to "double guarantee" enterprises, of which 33.9 billion kilowatt-hours were subject to unified state allocation. These figures represented, respectively, 47.6 percent and 45 percent of annual planned quotas and increases of 17.9 percent and 18.1 percent over last year. For coal, 105.98 million tons were supplied to "double guarantee" enterprises, of which 96.81 million tons were supplied via unified state allocation. These figures represent 48.6 percent and 46.4 percent of annual planned quotas. These were relatively large increases over the same period last year. Crude oil,

heavy oil, end product oils, and natural gas posted varying rates of growth. The supply of most major raw and semi-finished materials was up from last year. "Double guarantee" enterprises received top priority in the allocation of funds. The total balance of operating fund loans among the 234 "double guarantee" enterprises had reached 42.1 billion yuan by the end of June, an increase of 12 billion yuan (40.3 percent) over the same period last year. Transportation was improved. The volume of goods shipped out rose by 12 percent over the same period last year, and the volume of goods shipped in rose 29.9 percent over the same period last year.

The "double guarantee" enterprises are now faced with three main problems. 1) The market slump and the shortage of funds are affecting the ability of "double guarantee" enterprises to carry out normal operations. Quotas for operating funds and funds invested in finished products for "double guarantee" enterprises increased by relatively large margins, but turnover has slowed down. The turnover cycle in the first half of this year was 98 days—five days slower than in the same period last year. The 234 "double guarantee" enterprises are owed 53.8 billion yuan by outside sources, and in turn owe 46.7 billion yuan to outside creditors. These enterprises all show signs that they are being affected by the "debt triangle" problem as well as the market slump. 2) Economic benefits have declined across the board. The costs-to-profit tax ratio for these 234 "double guarantee" enterprises went down by 4.6 percentage points, and the output value and profit taxes per 100 yuan of original fixed asset value dropped, respectively, by 1.5 and 1.0 percent. 3) Some of the external conditions required by "double guarantee" enterprises have not been provided. Overall, the supply of energy and raw and semi-finished materials are much better than last year, as is the transportation of goods; however, development has been uneven. Some industries and enterprises have indicated that unified electricity allocation and transportation in some areas still needs to be improved.

PROVINCIAL

Readjustment of Heilongjiang Industrial Structure Reviewed

91CE0034A Harbin HEILONGJIANG RIBAO
in Chinese 18 Sep 90 p 4

[Article by Xu Mingda (6079 2494 6671) and Yang Hongbin (2799 3163 1755): "On Readjusting Heilongjiang's Industrial Structure During the Period of Economic Improvement and Rectification"]

[Text] I. Macroeconomic Diagnosis of Heilongjiang's Industrial Structure Problems

For a long time, the development of Heilongjiang's industrial structure has followed an unusual course. The main characteristic of this course is, before the "decade of turmoil," heavy industry grew with an unusually high

speed, resulting in the lopsided development of the industrial structure, and, since the mid-1960's, the entire industrial structure has remained stagnant in its twisted conditions. It has brought a series of problems to Heilongjiang's industrial structure. The following are the major problems.

1. It is difficult to form a "dual structure" between relatively modern industry and traditional agriculture, and industry and agriculture remain two separate fields of production. Industry's impact on agriculture is very weak, which seriously hinders the improvement of agricultural labor productivity and the progress of industrialization.

2. Disparities between major industries. The petroleum, timber, and coal industries have reached the peak in production; the machine-building industry, which should be renovated, is still in a difficult uphill struggle; the local chemical industry is very weak; and the electronics industry is inchoate.

3. A tapering structure. The industrial structure is focused on the production of primary products. In 1983, 23.3 percent of Heilongjiang's industrial output was attributed to natural resources, as compared with 5.5 percent for the whole country. It shows that Heilongjiang's industry is far more dependent on natural resources than the industry of the country as a whole.

4. Backward infrastructure. Transport, power, communications, and other service departments have become "bottlenecks," seriously affecting the productive activities of various industries.

5. Production capacities are more than enough for some products and insufficient for others. In the course a product goes from one processing link to another to get to the market, it often faces shortages in supplies of raw materials or other roadblocks. According to data from an industrial survey, in 1985, the utilization rate of the mining equipment of China's metallurgical departments was only 73.45 percent; that of chemical production equipment, 72.41 percent; chemical fiber production equipment, 63.17 percent; power-generating equipment, 52.67 percent; machine-processing equipment, 68.41 percent; and heavy mechanical equipment, 4.7 percent. In 1988, beer production capacity was 800,000 tons, but actual production was 550,000 tons. These data reflect the irrational capital distribution in industrial chains.

6. Slow technological progress. According to national and provincial chronological-statistical tables, computing by the Cobb-Douglas function, from 1981 to 1987, the rate of technological progress of Heilongjiang's industry was 3.05, and that of the country as a whole was 5.56; the contribution of technological progress to the growth rate of total output value was 34.6 in Heilongjiang, and 46.3 in the country as a whole. This shows that Heilongjiang's present industrial structure, which is characterized by its heavy dependence on natural resources, has seriously affected the province's momentum for economic development.

7. The overall industrial efficiency is low. Owing to the barriers between different departments and regions, technological disparities, the "large and all inclusive" and "small but all inclusive" enterprise organizations, and other reasons, there is a lack of cohesion among enterprises in the province and no connection between major and supplementary products, and the efficiency of scale is poor.

It is impossible to rely on such a sickly industrial structure to achieve vigorous economic development of Heilongjiang. We must start with improving the economic environment and rectifying the economic order, look far ahead, work in a down-to-earth manner, and readjust the industrial structure with definite goals and in a systematic way.

II. Near Term Goals and Emphases of Readjustment

Among the above-mentioned problems, some are unavoidable for developing countries or areas in the course of catching up with and overtaking the developed countries economically; some are the result of implementing state mandatory plans, which Heilongjiang has been doing for a long time, and solutions will depend on state industrial policies; and some are caused by ourselves in Heilongjiang, and we must strive to solve these problems on our own. The emphasis of our work in the course of the economic improvement and rectification should be on solving the last kind of problems.

Based on this understanding, during the period of economic improvement and rectification, the readjustment of Heilongjiang's industrial policy should be focused on the problems which directly cause waste of resources and affect the economic performance. In other words, the emphasis should be on achieving well-balanced industrial chains.

At present, the abnormalities of Heilongjiang's industrial chain can be divided into four types.

The first is the inversed-pyramid type. Take the metallurgical department for example. In the iron and steel product chain, the output of iron ore and ore concentrates was 344,000 tons and 167,000 tons respectively, but the output of iron was 450,000 tons. Proportionally this means that there was a shortage of 585,600 tons of ore concentrates and 1,537,400 tons of iron ore. In the link from steel to rolled steel, the province has a steel production capacity of 790,000 tons, and a rolled steel production capacity of 920,000 tons. At a ratio of 1:0.8 between steel and rolled steel, the steel production capacity is nearly 400,000 tons smaller than the rolled steel production capacity.

The second is the olive type. More typical is the textile department. The product chain of this department has the following characteristics: small at both ends, raw and semifinished materials production at one end and the clothing industry at the other, and big in the middle, spinning and weaving. In the field of cotton spinning, there are now 650,000 cotton spindles in the province,

requiring 64,000 tons of spinning cotton each year, but Heilongjiang does not produce cotton, and cotton supplied under the state plan can only meet two-thirds of the demand, leaving one-third of the production capacity idle. In the field of wool spinning, the province's wool production was as high as 15,000 tons in 1985, but owing to impractical policies, irrational price ratios, and many other reasons, the number of sheep has dropped sharply in the past few years. In 1987, wool production dropped to about 5,000 tons, a fall by two-thirds, but the number of wool spindles doubled, making it necessary to depend on imported wool. Owing to the lack of foreign exchange, the province has a shortage of 3,500 tons of wool each year, and about one-third of the production capacity is lying idle.

At the end of the chain of the textile industry is mainly the clothing trade. As raw materials production cannot keep pace with the processing industry, clothing production is very low in the province. In 1988, the garment industry's output value made up only 8.1 percent of the total output value of the textile industry. The textile industrial system produced only 9.05 million pieces of clothing, meeting only 20 percent of the demand in the province after exporting a small quantity. This situation cannot but limit the economic efficiency of the textile industry.

The third is the deficient type. A product needs to have major raw materials brought in from a main chain, and it also needs supplementary raw materials to be brought in from other chains. Thus a product chain is shaped like a tree. At present, Heilongjiang does not have a well-coordinated supply of major and supplementary raw materials. For example, Heilongjiang needs 46,000 tons of soda ash each year for glass production, but the province produces no soda ash, and only 10,000 tons a year is allocated by the state. To avoid shutting down the kilns, some glass factories have to smash the finished products and put them back into the furnaces. Heilongjiang's cement kilns have a total capacity of 8.37 million tons, but only 5.98 million tons of this capacity is used because of the lack of supporting facilities.

The fourth is the blockage type. Owing to backwardness in processing and applied research, some natural resources are unable to get the needed follow-up processing, causing invisible losses of economic benefits. For example, Heilongjiang has abundant nonmetallic mineral resources, but many valuable minerals are treated as ordinary mixing materials and not fully utilized. There are 2 billion tons of graphite deposits, but most of the graphite mined is exported as a primary product. The province has a very small production capacity for high-power graphite electrodes and has failed to turn the resource advantage into an economic asset.

In view of the conditions of industrial chains mentioned above, the readjustment of the industrial structure during the period of economic improvement and rectification should follow three main directions. The first is

to promote the production of raw and semifinished materials, relying on investment and policy, and, at the same time, to reduce the consumption and alleviate the shortage of raw and semifinished materials through technological progress and managerial improvement. The second is to rely on technology to improve the quality of end products, develop new products, and extend the industrial chains. At the same time, the production of some products, which are of poor quality and consume a lot of power, should be restricted, so that by curtailing some end products and increasing others better economic results can be achieved. The third is by reorganizing the enterprises to strengthen the link between intermediate products and end products and develop the tree-like industrial chains.

The achievement of the limited goals mentioned above will be marked by: 1) a rough balance between what is available for Heilongjiang's own use of the raw and semifinished materials which are mainly produced in the province, such as petroleum, timber, coal, etc., and the production capacity of the successive processing units; 2) a rough balance between the quantities of raw and semifinished materials which must and can be brought in from other provinces, such as iron and steel, cotton, etc., and the production capacity of the successive processing units; and 3) a rough balance between production of intermediate and end products and market demand, insuring that products are readily marketable.

III. The Significance of Science and Technology in Achieving the Near Term Objectives of the Readjustment of the Industrial Structure

In the last several thousand years, the functions of the human body and natural resources have changed very little, but technology has advanced at an accelerating speed. Therefore, technological progress is the real motive force of the evolution of the industrial structure. This has given science and technology a special role in readjusting the industrial structure during the period of economic improvement and rectification. During the period of economic retrenchment, many things should, but cannot, be done because there is no money. Therefore, it is all the more necessary to rely on science and technology to achieve the following goals:

First, to reduce material and energy consumption and partially alleviate the shortage of energy and raw and semifinished materials. According to our calculation, in 1987, the consumption of standard coal per dollar of domestic output value in Heilongjiang was 4.25 kg, which was 1.5 times the national average of 2.90 kg in 1980, 4 times South Korea's 1.12 kg, and 9.4 times West Germany's 0.49 kg. It should be pointed out that if we can reduce material consumption in this area through scientific and technological advances, it is equivalent to a relative increase in raw materials and power production and a reduction of friction brought on by the "bottleneck" industries. The same can also be accomplished with other raw and semifinished materials such as cotton, flax, beet, wool, and so forth.

Second, to increase the output of products in short supply and achieve a balance in the industrial chains. The shortage of some intermediate products, particularly raw and semifinished materials, is a major cause for the low utilization rate of equipment in the province. The shortage of these products can be greatly alleviated by improving the technological processes and raising labor productivity through technological innovation and transformation.

Third, to improve management standard and increase efficiency. Extensive management is a common malady in Heilongjiang's economy. This is not only because Heilongjiang had a late start in development, but also because its economy has long had the pronounced characteristics of a product economy, which has hindered the development of management functions. During the period of economic improvement and rectification, we should practice economy and tap potential capacities through the strengthening of management, reduce demands for money and raw and semifinished materials, and promote a sound cycle of economic activities.

Fourth, to reform technological processes, improve product quality, and make products more competitive in the market. At present, Heilongjiang's products are mostly run-of-the-mill, obsolete, and low quality. This has not only affected the increase of additional value, but made it hard to find markets. For example, after intensive processing, the export price of graphite, an abundant mineral in Heilongjiang, can be increased from a few hundred dollars to more than 10,000 dollars per ton. We have said that an important task in readjusting Heilongjiang's industrial structure is to reduce products which require less technology and increase products which require more. To fulfill this task, science and technology are indispensable. During the period of economic improvement and rectification, we must strive for better quality, more varieties, and higher standards and enhance the competitiveness of industries and products through technological advances.

IV. The Government's Position in Near-Term Readjustment of the Industrial Structure

At present, the factors affecting technological progress in Heilongjiang lie not only in money and qualified people but also in the shortsightedness of enterprises in resisting the use of new technologies. In view of this, it is imperative to strengthen the provincial government's role in managing the economy to insure the readjustment of the industrial structure.

1. The industrial policy should be made clear to the public. A list of products to be encouraged and products to be restricted should be compiled in clear-cut terms through the legislature. It should be strictly enforced, and violators should be called to account.

2. It is necessary to strengthen direct guidance to the technological transformation of major products; formulate a three-year product development, introduction, and renovation plan; selectively develop some new products

and technologies; concentrate the scientific and technological forces of the whole province to tackle key problems; and strive to develop in the major industries a distinctive technological advantage for the province in the next few years.

3. It is necessary to implement a compulsory product and technological upgrading and updating policy and strengthen the government's power to force enterprises to seek technological progress. Industries with high-quality and readily marketable products, advanced technology, good economic returns, and bright marketing prospects can be issued preferential cards by the Provincial Planning Commission, and enterprises holding these preferential cards will enjoy preferential treatment in the supply of energy, raw and semifinished materials, funds, and so forth. Efforts should be made to increase the output value of new products from the present 15 percent to 35 percent of the total in three to five years. The life cycle of products should be shortened from the present 15 years or so to 10 years.

4. It is necessary to strengthen government supervision and guidance for the technological progress of enterprises with the introduction of technological contracts. Contracts should include progress in technology and development of new products. The performance of enterprises in fulfilling technological targets should be constantly checked.

5. The large- and medium-sized enterprises are the main force in promoting technological progress in the province. These enterprises should be given special treatment for development of new products and technological renovations. They can be allowed to take a certain percentage from sales as technological development funds. Some high-tech trades may be allowed an even higher percent.

6. It is suggested that favorable treatment in investment and policy encouragement be given to primary products, because it is impossible to regulate their production through the market mechanism. For example, the coal and metallurgical trades may be allowed to "use coal income to increase coal production" and "use steel income to increase steel production" and to raise funds and boost income on their own.

7. During the period of economic improvement and rectification, bank credit should not be determined simply on the basis of the capital input-output ratio, that is, the so-called practice of giving the "green light" to a first class of enterprises, "yellow light" to a second class of enterprises, and "red light" to a third class of enterprises. Instead, in determining the focus of credit support, consideration should be given to the need of the readjustment of the industrial chain and the overall economic interests of the province, and money should be used to support production of products in short supply and improvement of product quality.

Qinghai Uses Local Resources To Boost Economy

OW0411153490 Beijing XINHUA in English
1343 GMT 4 Nov 90

[Local Broadcast News Service]

[Text] Xining, November 4 (XINHUA)—Northwest China's Qinghai Province is increasing efforts to make use of local resources to boost its economy.

According to statistics, in the first nine months of this year the province increased aluminum output by 34,000 tons, a 48.9 percent increase over the same period last year. In addition, electricity output recorded a rise of 30.6 percent, reaching 5.48 billion kilowatt-hours.

Output of coal, natural gas and cement also increased by at least 10 percent each.

Qinghai is rich in natural resources and 37 of its 57 verified mineral reserves rank among the largest in the country.

In recent years, the central and provincial authorities have increased efforts to make better use of resources.

The province now has the 1.28 million kw Longyangxia Hydropower Station, the largest in northwest China, in the upper reaches of the Yellow River, and construction of the two million kw Liji Xia Station is well under way. The development of electricity production will provide enough power for more advantageous use of other resources in the province.

The Qinghai Oil Field, which supplies oil for Qinghai and Tibet, now produces 1.2 million tons (one ton equals 7 bbl) of oil annually. An oil refinery, which will have an annual processing capacity of 1.2 million tons of crude oil, is now being built at Golmud.

Qinghai, the largest lake salt producer in China, produces 1.5 million tons of lake salt annually, of which 1.1 million tons is used for industrial purposes. A potash fertilizer plant with an annual output of 200,000 tons will soon go into production. Its production capacity will later be expanded to one million tons.

The state is increasing its investment in the development of transportation and communications in Qinghai in order to facilitate the better use of natural resources. State funds invested on this sector amounted to 100 million yuan in the first nine months of this year. Projects to upgrade the Qinghai-Tibet railway (from Xining to Golmud), and several major highways which connect Qinghai with Tibet, and Sichuan and Gansu Provinces are ongoing.

FINANCE, BANKING

Causes, Remedies for 'Triangular Debt'

91CE0018A Beijing ZHONGGUO JINRONG [CHINA FINANCE] in Chinese No 9, 4 Sep 90 pp 20-21

[By Zhang Shaorui (1728 4801 3843) and Zhang Yanlin (1728 1750 2651)]

[Excerpts] [Passage omitted] **Problems Now Being Encountered in Clearing Up "Triangular Debt"**

Clearing up debt payments for goods that are overdue does indeed activate a portion of funds and has a certain effect on reviving the economy. However, given the present slow pace of settlements and lack of vigor with which difficult settlements are being handled, some problems still remain.

1. The various departments definitely do not have the same understanding of what is meant by clearing up "triangular debt." Some departments think that settlement of past debts has little to do with one's own department. Some enterprises are afraid of paying out what they owe and not being able to collect what is owed to them. The idea that being in arrears is an advantage and beneficial has not been dispelled. There are also some enterprises whose efficiency is poor which, if they are to clear up what they owe, have to increase their bank loans. This increase in loans means they have to pay more interest, thereby limiting their ability to carry on. These factors all make it more difficult to clear up past debts.

2. Solely relying on bank loans to clear up past debts cannot put an end to the present predicament of enterprises. Banks should serve as credit intermediaries and clearing houses to help enterprises settle past debts. Banks can only operate on the basis of making loans here and making collections there and of making proper loans. When a bank extends a loan to clear up a debt, the debt between enterprises merely becomes a loan which an enterprise owes to the bank. It is a shifting of the debt. It cannot resolve the overall shortage of funds. Looking at the actual situation with respect to debt repayment, most of those enterprises which have large balances due from sales revenues have products which are in demand. Since these enterprises can only redeem a certain proportion of their loans from the revenue that they collect from sales, the lending bank's inability to extend credit is then further increased. Many of those enterprises which owe large amounts for the payment of goods are not efficient. These enterprises depend on bank loans to repay their debts, causing the credit structure of the banks to become more and more irrational.

3. There is a gap in fixed assets investment. According to statistics, about 1.3 billion yuan is in default from such factors as capital construction, inadequate estimates for technological transformations, and increases in the price of materials.

4. Losses are not compensated. Financial departments think that, after an enterprise undertakes a contract, since losses that occur within the plan that should be compensated are compensated, then, operational losses and losses over and above the plan should be absorbed by the enterprise itself. Nevertheless, enterprises use all kinds of reasons for refusing to make compensation. More than 700 million yuan in losses have not been compensated by state-operated industrial enterprises, commercial enterprises, food enterprises, and foreign trade enterprises alone.

5. The market slump and oversupply of finished goods have caused payments to be in arrears. During the first quarter of 1990, the oversupply of finished goods accounted for approximately 10 percent of payments that were overdue.

6. Enterprise accounting losses, inventory losses, bad debts, and failure to distribute what should be distributed are long-term problems with which we have been unable to deal.

"Triangular Debt" Is a Reflection of Funding Problems Associated With the Imbalance Between Aggregate Supply and Aggregate Demand

Nonpayment for goods among enterprises is not only extensive and the amounts involved large, these debts are also mutually intertwined with each other. The truth of the matter is that nonpayment for goods received is a comprehensive reflection of funding problems associated with a number of factors, including the imbalance between aggregate supply and aggregate demand and the illogical industrial structural and product mix in our current economic construction.

1. The basic reason for nonpayment is aggregate demand exceeding aggregate supply in the face of macroeconomic loss of control and structural imbalances. Because since 1984 we have been impatient for quick results in economic work and because of the dual expansion of investment and consumption funds, aggregate demand has greatly exceeded aggregate supply. From 1984 to 1988, national income increased 70 percent, while investment in social fixed assets increased production 210 percent, and the money income of urban and rural residents increased 200 percent. It was the same for Shanxi Province as for the rest of the country. The difference between aggregate demand and aggregate supply continued to be wide. In 1984, it was 4.64 billion yuan; in 1985, 3.07 billion yuan; in 1986, 4.59 billion yuan; in 1987, 3.44 billion yuan; and in 1988, 3.6 billion yuan. Aggregate demand exceeding aggregate supply and national income exceeding distribution is supported by enterprises living off past gains, by financial authorities going into the red, and by the banks issuing currency. Currency throughout the country exceeds the economic issue. The amount of currency in circulation in Shanxi in 1989 was 2.92-fold that of 1984. Relying on deficit spending, the overissuance of currency, and production speed without any material guarantees can, to a certain

extent, no longer be sustained. Even though investment expansion in fixed assets has been basically controlled, some investment funds are stagnating, having been converted already to equipment and parts that cannot be turned over.

2. The oversupply of finished products is a direct cause of nonpayment. Panic buying led to premature consumption and to hoarding; the climate of the international market led to certain goods meant for sale abroad being shifted to the domestic market; controlling group purchasing power reduced part of market demand; industrial structure and product mix were illogical; market prices dropped back, and index-based savings accounts were begun; and the masses went from wanting to spend their money as soon as they got it to wanting to save it and not spend it. All these situations caused the majority of sales for industrial enterprises to decline and their production to go into a downhill slide, thus immersing them in a debt crisis. According to data from 3,711 accounts belonging to industrial and commercial enterprises in the Industrial and Commercial Bank of Shanxi, funds for finished goods at the end of 1989 accounted for 3.61 billion yuan, a 1.2 billion yuan increase compared with 1988. At the end of the first quarter in 1990, funds for finished goods accounted for 4.12 billion yuan, an increase of more than 500 million yuan.

3. The simultaneous existence of price rises and erosion of funds constitute an objective cause of nonpayment. Because of price rises and the inability to compensate for a portion of funds that were devaluated, plus a serious erosion of funds, a day by day reduction in operating funds used in the production cycle, and enterprise vitality being restrained, enterprises encountered serious difficulty in making payments. On the one hand, price rises enabled enterprises to expand their demand for investment funds. On the other hand, the price rise advantage only increased the income of state financial authorities and the enterprises without increasing operating funds. Price rises have become a major factor in the greater demands of enterprises and in the upswing in their use of funds. According to data from the five bank accounts of Shanxi's Taiyuan Iron and Steel Company, Taiyuan Heavy Machinery and Equipment Plant, Jin Machine Tool Plant, Shanxi Woolen Textile Mill, and provincial metals processing plant, increased raw and processed material prices increased their given amounts 47 percent.

4. Existing shortcomings in the management of operating funds and the supply system are the main cause of enterprises being unable to make payments. Enterprise operating funds have been placed under the unified management of the banks, and state financial authorities no longer make additional allocations. At the same time, the capacity of enterprises to provide for their own operating funds is severely limited. Thus, they must basically rely on the banks for the entire amount of operating funds they require. As a proportion of given

assets, operating funds at the disposal of Shanxi industrial enterprises within the plan declined from 52.7 percent in 1980 to 24.67 percent in 1988. For commercial enterprises, they declined from 14.9 percent to 9.33 percent. At present, enterprises rely on bank loans for about 80 percent of their funds. The result of this is that, on the one hand, it adds pressure on the banks to provide funds, forcing them to grant loans which exceed the economic issuance of currency. On the other hand, financial authorities and enterprises will use outlays that should be used for operating funds for fixed assets investment and consumption, thereby exacerbating the dual expansion of investments and consumption. Following our limiting the growth of the money supply, the contradictions that had accumulated in economic work were laid bare.

5. Lack of enterprise economic efficiency and lack of capability and mechanisms for self-regulation and control and self-development constitute innate causes of nonpayment. The large use of funds, slow turnover, and low efficiency are now widespread phenomena. This has been brought about by many factors, including illogical industrial structure and product mix, illogical funds investment, low level of management, and poorly qualified personnel. Another cause is that the settlement of accounts by banks is inflexible, their methods backward, and their efficiency poor. Certain of Shanxi's major economic indicators are lower than national levels. For the first quarter of 1990, 74.58 yuan of funds were used for each 100 yuan of total industrial output value, a 33.42 percent increase compared with the beginning of the year [sic], and 70.77 percent higher than nationally. Turnover for operating funds was 220 days, a 31.89 percent increase compared with the beginning of the year and 25.71 percent higher than nationally. In addition, some of the enterprise transactions were in dispute, many enterprises had only vague notions of how credit worked, and some used the funds of others to do business without capital. This inevitably led to nonpayment.

Several Suggestions for Further Invigorating "Triangular Debt" Work

1. Further unify ideological understanding and establish a concept of the whole, thereby strengthening the consciousness for clearing up "triangular debt." [passage omitted]

2. Seize the opportunity to earnestly put sensible readjustments of industrial structure and product mix into effect. If market sales are in a slump and exerting external pressure on enterprises, then this is a fine opportunity for readjusting industrial structure and product mix. We must now grasp the opportunity to formulate overall policies and make up our mind to carry out readjustment of structure and mix in order to optimize the allocation of resources.

3. Further stimulate the market to resolve the problem of oversupply. We propose, with respect to capital goods in the category of social requirements and within the state

plan, that the state use special funds to purchase equipment in oversupply because of the curtailment of investment in fixed assets, that goods which cannot be sold within a short period of time but which are in market demand be purchased by commercial departments with funds provided by banks, that production of inferior quality goods which are high-priced and selling poorly be stopped and that enterprises shift their production or merge, and that the prices of goods which are unsalable, especially those goods in oversupply the prices of which are still at the same level they were two years ago when prices shot up, be promptly lowered in order to stimulate sales and reduce losses from oversupply.

4. Resolutely adhere to state provisions for replacing operating funds on hand. All newly built and expanded enterprises should arrange for 30 percent of operating funds for their fixtures. Established enterprises should make replacements according to provisions. Increases or decreases in the state allocation of operating funds should, in accordance with state provisions, be made to handle the rise or decline in the value of reserves caused by state price readjustments. Enterprises, part of whose products have increased in value because of rising prices, should appropriately increase their operating funds to offset part of the price increases for raw and processed materials. In addition to enterprises providing their own replenishment, financial authorities should also resume increased allocations of operating funds to strengthen the vitality of enterprises.

5. Where there has been overspending for capital construction and technical transformation projects, investment gaps that have not been allocated should be allocated. Where their own funds are insufficient, whoever is responsible should bear the burden. New projects should not be planned prior to old debts being cleared up.

6. Losses from allocations in arrears must be made up for as soon as possible according to the principles of the financial administration management at the various levels. We recommend that, after they are examined and verified by financial authorities, longstanding debts that precede the advent of enterprise contracts, including losses on accounts waiting to be settled, distributions that should have been distributed but which were not, inventory losses, and false profits and real losses, they gradually be resolved in installments in accordance with financial resources. Losses that have occurred during the period of contracts should also be appropriately resolved according to the differing situations or the enterprise should be urged to take responsibility for clearing them up.

7. Banks at the various levels which continue to help enterprises clear up nonpayment and all those which are conforming to the provisions of credit policies must actively inject funds to promote settlements. We also must strengthen our supervision of accounts being settled, strictly manage the settlement of accounts, vigorously expand the use of commercial instruments, gradually reduce credit loans, and appropriately increase the

discounting of negotiable instruments and mortgage loans, thus enabling charge account credit to become paper credit and making commercial credit negotiable.

8. In organizing a nationwide clearing up of nonpayment, we recommend a nationwide unified leadership and a unified method of debt settlement that is focused on a period of time to carry out the settlement. Because banks have established special accounts for enterprises to clear up nonpayment, collections should be reprocessed by the parties receiving the money. In conformity with the conditions of credit, both receipts and payments should be handled in transfer accounts. Later, the offsetting balances revert to the relevant accounts and adjustments can be made between the specialized banks for credit amounts and funds. In this way, all the nonpayment that can be cleared up will be cleared up.

Investment Strategy for Eighth Five-Year Plan

91CE0017A Beijing JINRONG SHIBAO [FINANCIAL TIMES] in Chinese 11 Sep 90 p 3

[Article by Jiang Weijun (1203 4850 0193) and Zhan Xiangyang (6124 0686 7122): "Reflections on Investment Strategy During the Eighth Five-Year Plan"]

[Excerpts] China is entering the Eighth Five-Year Plan of its economic development. In drafting various strategies to accomplish the Eighth Five-Year Plan goals, the investment strategy has a pivotal position. These reporters will be talking about several, but not fully thought out ideas on the problems [connected with] drafting an investment strategy for this period.

I. The Structure of the Sources of Seventh Five-Year Plan Investments and Their Analysis

The Seventh Five-Year Plan was a period of rapid economic growth and large-scale investment of funds for China. According to statistics, in 1987 China's total fixed asset investments increased 286 percent over 1980, with a seven-year average increase of 21.3 percent. In 1988 fixed asset investments in the whole society increased 23.5 percent over 1987. This large volume of investments came mainly from four channels: 1) investments in the state budget; 2) domestic loans; 3) use of foreign capital; and 4) domestic independently raised and other investments. In achieving the 1987 capital construction quotas, the proportions of these four channels were 59.1 percent independently raised and other investments, 23 percent domestic loans, 13.1 percent investments in the state budget, and 4.8 percent use of foreign capital. However, from the perspective of the rate of growth, from 1984 through 1987, the increasing use of foreign capital ranked first, domestic loans second, and independently raised and state budgeted investments were only in third and fourth place. This situation was even more conspicuous in 1988. [passage omitted]

II. Basic Determinations on the Structure of Investment Sources in the Eighth Five-Year Plan

[passage omitted] First, regards domestic investment. Presently, in the funds in Chinese society, extra-budgetary funds are approximately equivalent to funds in the state budget. The savings deposits and other financial assets of urban residents total over 800 billion renminbi, and it is estimated that by the end of the Seventh Five-Year Plan they could approach 1 trillion renminbi. This is determined from the actual structure of Chinese national income distribution. Moreover, when we look at the direction of the deepening economic reform, this structure of national income distribution is irreversible. So, the basic structure of domestic investment in the Eighth Five-Year Plan will be mainly domestic loans and independently raised funds.

Second, as regards foreign capital. [passage omitted.]

Beginning in 1979, China has introduced and used foreign capital. This played a large part in relieving the lack of Chinese construction funds and improving China's ability to expand reproduction. But according to relevant estimates and analyses, the Eighth Five-Year Plan will be precisely the period in which China's repayment of foreign debts will peak, and that will restrict the scale and pace of China's economic development.

III. First Choice of the Eighth Five-Year Plan Investment Strategy Is To Rely On Accumulated Domestic Funds

Judging from the basic determinations on the structure of Eighth Five-Year Plan investment sources, Eighth Five-Year Plan investments must be based on and rely on domestic accumulation. One aspect of this is that, because during the Seventh Five-Year Plan our foreign debt was rather great, creating an Eighth Five-Year Plan debt servicing peak, a rather large amount of foreign exchange funds will have to be used to service the debt, [so] we cannot have even more foreign capital invested in construction. Another aspect is that from the perspective of international experience, the source of funds for any country's economic development must, in the last analysis, rely on domestic accumulation. For example, after the war when the Japanese economy took off, Japan also faced a shortage of construction funds and frequent balance of payment deficits. But Japan relied mainly on domestic banks to raise construction funds. The proportion of foreign capital introduced was very small, only approximately 0.8 to 2.7 percent of total Japanese fixed asset investments.

To increase the accumulation of Eighth Five-Year Plan domestic funds and satisfy the need for construction funds, the following should be accomplished during the Eighth Five-Year Plan:

(1) Give a prominent place to stabilizing and developing domestic accumulation. Unlike developed market countries, in China, bank deposits are essentially the only channel for converting the funds that are in residents' hands to construction investments. So, we must persist unwaveringly in carrying out a national policy to stabilize and stimulate savings, stabilizing the interest rate on

savings deposits and developing and reforming the points on the savings net, accelerating the computerized handling of savings deposits. At the same time, we must develop such new businesses as pay substitutes and credit cards and improve services to raise even more funds for construction.

(2) Vigorously open up money markets and increase the channels for converting savings into investment. To absorb social funds to an even greater extent, we must open up another channel in addition to savings for converting investments, we must open first and second level markets for negotiable securities, making them sources of long term interest bearing investment. From the onset of reform through to the end of 1989, China issued 144.9 billion yuan in various types of securities, including 101.5 yuan in various state bonds, 22.1 billion yuan in financial [institution] bonds, and 12.5 billion yuan in bonds from various enterprises. In 1990 the state will continue to issue various types of bonds, indicating that China's primary securities market—the issuing market—is already beginning to take shape. During the Eighth Five-Year Plan we must further encourage and support the growth of the bond market, especially the state bond market. By means of this market, during the Eighth Five-Year Plan we can raise 200 billion yuan or even much more in state bond funds. Corresponding to this we should establish a bond and stock transfer market—the second level market. Based on over-the-counter exchanges of the present 34 securities companies and nearly 400 trust and investment companies, we could selectively establish markets concentrating on securities exchanges to increase bond liquidity and make them more attractive.

(3) Vigorously develop insurance enterprises. The insurance profession safeguards the development of the state economy, raises funds, and compensates for unforeseen losses to the financial and investment mechanism. It is estimated that with effort, during the Eighth Five-Year Plan, income from insurance fees throughout the nation could reach over 100 billion yuan. This is a considerable source of construction funds.

IV. Adjusting the Structure and Improving the Effective Supply of Investments Are Also Important Strategy Choices

(1) Resolutely reduce the irrational portion of the aggregate demands of society, including appropriately reducing fixed assets throughout society invested in duplicate construction, especially investment in the general processing industry; continuing unwaveringly to control the institutional purchases; effectively controlling inflation in consumer demands; appropriately regulating personal income, and gradually resolving inequities in social distribution in accordance with industrial policy, so that the limited funds of the Eighth Five-Year Plan can be put to rational and efficient use.

(2) Give impetus to reform of the enterprise title system and perfect resource allocation. The Eighth Five-Year

Plan should progressively pursue mergers, integration, incorporation, and stock management based on further improvement in the enterprise contract responsibility system to regulate investment amounts, make original investments more active, and increase output.

(3) Use the opportunities of market slumps to convert present stock surpluses to constructive investments. There are two possible specific methods: One is a financial method. In the form of credit put up a portion of credit funds and convert a corresponding portion of materials to economic development. Another method is to provide a portion of merchandise in stock to "peasant works" for them to exchange for works such as road repair and construction projects.

(4) Further broaden the use of direct investment by foreign businesses. In the Eighth Five-Year Plan, with the margin of foreign loans rather small, further opening up and broadening the use of direct investment from foreign businesses is an important way to make up for the shortage of foreign exchange caused by the servicing of the foreign debt. It not only can bring in funds, but can also correspondingly bring in advanced technology and management. For a country that has insufficient accumulation of capital and a backward level of technology, as well as a shortage of foreign exchange, this is very useful for augmenting accumulations and using advanced foreign technology and equipment for developmental investment.

(5) Gradually open up to foreign investment banks. The introduction of foreign investment banks can have many advantages through the funds that they bring in as well as the technology, advanced management, and channels for import and export trade they gain. There are presently over 30 foreign investment banks in China and they have acted as go betweens arranging loans from international banking cartels and resolving funding problems for such projects as the Daya [1129 0068] Bay nuclear power station, the Pingshuo [1627 2592] coal mine, and expansion of the Panzhihua [2372 2655 5363] steel mill. So, during the Eighth Five-Year Plan, if we can make progress in opening up to foreign investment banks, we believe that it will definitely be useful for increasing Eighth Five-Year Plan investments.

INDUSTRY

Guizhou Industrial Output Value Increases

HK0811065890 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 5 Nov 90

[Text] According to a statistical analysis conducted by the provincial statistics bureau, on the basis of a 7.3-percent increase gained in September, industrial production in Guizhou Province witnessed steady growth in October, with its total monthly output value reaching 1.773 billion yuan. This represents a 3.6-percent increase over the previous month and a 17-percent increase over the same period last year.

Total industrial output from January to October reached 15.416 billion yuan, representing a 4.3- percent increase over the same period last year. Our provincial industrial production in the first 10 months of this year possessed the following characteristics: Except for Bijie prefecture, whose industrial output has fallen, all the other prefectures, autonomous prefectures, and cities maintained a constant growth in industrial output. Light industrial production developed at a faster rate than heavy industrial production. Collectively owned industries witnessed a faster development compared with industries owned by the whole people. Thanks to the structural readjustment and the [words indistinct], light industrial output from January to September increased by 3.4 percent. Of this, industries which use farm products as raw materials witnessed a 10.8-percent increase in their output and industries which use non-agricultural products as raw materials witnessed a 16.8- percent negative increase in their output. The output value increase gained by industries which use farm products as raw materials, is attributed to the abundant agricultural harvest reaped by Guizhou this year. The province's heavy industrial output increased by 2.8 percent. Of this, excavation industrial output increased by 13.2 percent, raw and processed material industrial output increased by 5.6 percent and manufacturing industrial output remained constant relative to last year. Such a growth rate structure is the first of its kind in recent years. From this, we can see that improvement, rectification, and structural readjustment have yielded initial results.

The problems still existing in our industrial production at present are market weakness; overstocked finished products; lack of funds; and lack of certain raw and processed materials. Hampered by all these negative factors, our industrial production has been developing at a snail's pace and has been producing poor economic results. This can be seen in the following two aspects: aggregate profit has decreased by a large margin, and the number of enterprises that have suffered financial losses has increased rapidly.

Steel Output Rises Eight Percent

HK0711021890 Beijing CHINA DAILY
in English 7 Nov 90 p 2

[By staff reporter Ren Kan]

[Text] China produced eight percent more steel in the first 10 months of this year than it did in the same period last year.

The announcement, made yesterday by the Ministry of Metallurgical Industries, also said that production was expected to slow down a little between now and the end of the year.

A ministry official said that China, the world's fourth largest steel producer, turned out 54.48 million tons of steel between January and October, an 8.2 percent increase over the same period last year.

This figure accounted for 89 percent of the industry's production target of 61 million tons for this year, he said.

In fact, he said, the steel output for this year was expected to hit 64 million tons.

After registering a record daily output of 191,300 tons in September, the industry produced 188,600 tons a day last month.

Pig iron production grew by 7.5 percent in the first 10 months of this year to reach 51 million tons, he said.

He attributed the increase to the abundant supply of electricity and raw materials which had been in short supply in previous years.

The rapid increase in steel production will help boost the development of the country's national economy, which was anticipating a six-percent increase over last year, the official told CHINA DAILY.

However, the ministry was planning to slow down the pace of its growth because the metallurgical industry was being hampered by the sluggish market, cash shortages, growing stockpiles, and declining profits.

During the first nine months of this year, the official said, the country's key iron and steel enterprises suffered a 15.7 percent decrease in their profits. Nine major enterprises, which he did not name, were in the red.

Although the October figure was not available, he said that no dramatic change had taken place then.

The declining profits was caused by soaring production costs and a market slump, he said.

Output of steel products this year has surpassed demand for the first time in 10 years. During the first 10 months, China produced 42 million tons of steel products, an increase of five percent over the same period last year.

Although China imported relatively few steel products this year while increasing its exports by 92 percent from last year, the official said, large quantities of steel products have been sitting in stockpiles throughout the country.

Stockpiles of steel products during the first 10 months of this year were 2.4 million tons, up from the figure for the same period last year.

In addition, the official said, steel enterprises were haunted by the problem of debts.

The anticipated slow growth rate for the rest of the year is due also to the cold weather, which will affect the transportation of coal and iron ores, he said.

Industry Posts Rise in October Output

HK0911104490 Beijing CHINA DAILY
in English 8 Nov 90 p 1

[By staff reporter Li Hong]

[Text] The sharp growth in industrial production in October promises a bright last quarter of 1990 and a good start for 1991, according to Chinese officials.

Figures released yesterday by the State Statistical Bureau show that industrial production increased by 12.7 percent in the month compared with October last year, leading economic analysts at the bureau to suggest that the projected for 1990 could be fulfilled with the approach of the buying season for the lunar New Year.

While China's industrial recovery over the past months had been held back by the sluggish market and piling inventories, the good performance in October signalled the return of a favourable cycle, the analysts said.

The October figures showed that industrial production in the month was 5.2 percent higher than September's figure.

Posting a double-digit increase for the first time this year, October's figure of 168.8 billion yuan (\$35.8 billion) pushed total output for the past 10 months to 1,571 billion yuan (\$333.5 billion)—a 4.1 percent increase on the corresponding period last year.

During the first nine months, China generated an industrial output value of 1,402 billion yuan (\$298 billion), a 3.1 percent increase on the same period last year.

Bureau officials attributed the sharp industrial growth in October to a speedy economic recovery in coastal areas, rapid growth in light industry, and a continuous expansion of rural industry and foreign-funded enterprises.

The officials said, however, that relatively low industrial output in October last year accounted for 2.3 percentage points of the 12.7 percent increase for the month.

The statistics show that four coastal provinces, in addition to the Xinjiang Uygur Autonomous Region, reported record monthly industrial growth rates last month.

Jiangsu, Zhejiang, Guangdong and Hainan chalked up industrial growth of 21.4 percent, 21.9 percent, 27 percent and 38.3 percent respectively this October, accounting for nearly half of the 12.7 percent increase.

And production of light industry, such as the processing of agricultural and sideline products, increased by 16.2 percent in the month.

Output of watches, cameras, colour TV sets, tape recorders, washing machines and refrigerators increased by between 28.9 percent and 73.7 percent in October last year.

Rural industries, in Jiangsu and Zhejiang provinces in particular, and foreign-funded enterprises continued to provide much of the steam for the rise in production, increasing their output value by 5.82 billion yuan (\$1.2 billion) on September's figure.

Bureau officials pointed out, however, that impeded flow of funds and stockpiles continued to hamper industrial development.

Profits had continued to fall, production efficiency was low, and production of energy and raw materials remained on the wane as in August and September.

Industrial Mold Manufacturing Termed 'Priority'

HK1211043090 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 12 Nov 90 p 2

[By staff reporter Chang Weimin]

[Text] China will beef up industrial mould making for non-metal processing and the establishment of a national administration for the industry will be announced soon.

Industrial mould making will become a government priority for the coming five years, Zhou Junquan, a division chief of the Department of Technical Equipment of the Ministry of Light Industry, told Business Weekly last week.

Zhou said efforts will be made to marshal the professionals and equipment needed to form an independent industry. The China National Non-metal Processing Mould Industry Association was recently approved by the government.

He said preparations for the establishment of the association are being sped up and the official establishment will be announced before next May.

The association, which will function as a State administration over the industry, is to operate under the Ministry of Light Industry, which governs more than 60 percent of the country's plastic processing, Zhou said.

China has long had a national metal processing mould industry association under the Ministry of Machinery and Electronics Industry.

As non-metals become more popular than metals, moulds for processing have become more important.

China's mould making for non-metal processing has been developed in the past decade but experts said more refinements were necessary.

The annual production value of mould making in China is 3 billion yuan (\$636 million), a far cry from production in advanced nations, the experts said.

Rough statistics show that in the past few years, China imported \$60 million worth of plastic processing moulds a year.

Total imports of moulds would show a much higher figure if moulds for other non-metals processing were included, Zhou said.

Experts also attributed much of the one-year sluggish domestic market to poor goods quality and also the poor quality of industrial moulds.

All this called for corresponding development of the mould making industry, Zhou said.

"The competition in light industrial products comes down to competition in mould making," Yu Zhen, Vice-Minister of Light Industry, pointed out.

Meanwhile, computer application in mould designing and making has been designated a key project for the coming years.

The State Planning Commission decided to assign the project to the Ministry of Light Industry. Blueprints are underway and professionals are being gathered, Zhou said.

He said the Ministry of Light Industry will earmark special funds for development of the moulds.

Development of moulds in the production of household electric appliances will be emphasized, he said.

SMALL-SCALE ENTERPRISES

Ease Credit for Township, Town Enterprises

91CE0014A Beijing ZHONGGUO JINRONG [CHINA FINANCE] in Chinese No 9, 4 Sep 90 pp 28-29

[Article by Zheng Zhifang (6774 4160 2455): "Need for a Moderate and Steady Credit Investment Policy for Township and Town Enterprises"]

[Excerpts] **The Township and Town Enterprise Economy Is an Important Integral Part of the National Economy**

[Passage omitted] The gross output value of township and town enterprises currently stands at 58 percent of the gross output value of rural society, and 24 percent of the gross output value of society for the country as a whole. The gross output value of township and town industry stands at 28 percent of the gross output value of industry nationwide, and at 20 percent of total foreign exchange earnings from exports. Output of very many products such as raw coal, bricks, cement, machine-made paper, as well as paper board, textiles, and clothing accounts for one-third, one-half, or even two-thirds or more of gross social output value. The economic development of township and town enterprises has also given impetus to the development of rural finance and banking endeavors. Not only are they "consumers" of credit, but also "providers" of credit.

The rural industrial economy has had a very great effect on large- and medium-sized state-owned industrial enterprises. A township and town industrial output value of more than seven percent for the first five months of 1990 was a major factor in the 1.4 percent increase in the gross industrial output value of the country as a whole. Partnerships between tens of thousands of key township

and town enterprises and state-owned large- and medium-sized industrial enterprises, or the production of complementary products, produced an output value of nearly 100 billion yuan, and gave rise indirectly to a state-owned industry increase in output value of several hundred billion yuan.

Preliminary Results Seen From Township and Town Enterprises' Improvement of the Economic Environment and Restructuring of the Economic Order

During the past two years, township and town enterprises have actively conducted self-improvement of the economic environment and restructuring of the economic order in accordance with the Central Committee policy of "readjustment, restructuring, consolidation, and improvement," and they have already won preliminary results from their efforts. First, the overly high speed of development of the past two years slowed, meaning that the degree of increase in gross output value fell from 37.3 percent in 1987 to 34.8 percent in 1988, and on down to 15.9 percent in 1989. During the first five months of 1990, it was only 5.2 percent. Second, in accordance with the national industrial policy of following the principle of "rapid readjustments of products, slow readjustments of trades, and minimal readjustment of industries," and "few closures or production halts, and many mergers or retoolings for other kinds of production," they effectively and rationally readjusted their internal economic structure. A number of enterprises that consumed large quantities of energy and raw materials, that seriously polluted the environment, and that had poor conditions for development and showed poor economic returns retooled, closed, or halted production. In 1989, a total of 76,000 township and town enterprises nationwide with an industrial output value of nearly 10 billion yuan were closed, halted production, merged, or retooled. At the same time, a number of key enterprises that were based on locally available resources, consumed little, produced goods that sold well, earned foreign exchange from exports, that produced to complement the products of large- and medium-sized industries, and that showed good economic returns were transformed, consolidated, developed, and improved. At the end of 1989, key township and town enterprises having an annual gross output value of 5 million yuan or more numbered 12,000, 35.5 percent more than in 1988. Third was the improvement of enterprise quality. New advances were made in production techniques; self-development capabilities increased; and production administration and management saw substantial strengthening and improvement.

The Bank of Agriculture and rural credit cooperatives made full use of the role of credit and interest rate levels in the active support of township and town enterprises improvement of their economic environment and restructuring of their economic order. The macroeconomic enforcement of a national policy of credit tightening brought about a lowering of the overall high speed of development of township and town enterprises. For three years running, the degree of increase in township

and town enterprise loans was held down. This meant that the annual increase in credit was cut from 56.7 percent in 1986 to 30 percent in 1987, to 18.4 percent in 1988, and on down to 8.5 percent in 1989. This included the greatest cut in Bank of Agriculture credit, which was cut to basically zero in 1989. The cut in the amount of increase in credit produced instant results in holding down the speed of development of township and town enterprises.

[passage omitted] During the past two years, a new situation has come about in credit work of "two changes," and "two supports." The first was a change from emphasis on increasing the amount of credit to emphasis on using the amount of available credit well, supporting existing production enterprises and the level of production projects under construction. The second was a change from the previous emphasis on providing credit funds to emphasis on providing credit services to support enterprises in improving their self-development capabilities, and increasing their own accumulations. Throughout the country from top to bottom, a full check of credit funds, and a stock-taking of bad and stagnant loans was carried out; national township and town enterprise policies served to guide the rational readjustment of the credit structure; enterprises were assisted in distributing profits equitably and building up their own funds; enterprises were spurred along in settling "triangular debts" and various other sums outstanding, in inventorying warehouses to tap potential, and in improving the use of funds, etc. The foregoing activities were outstandingly effective under the new circumstances and new conditions in supporting the healthy development of the township and town enterprise economy.

Moderate Increase in Credit Investment Is an Important Requirement for Proper Development of Township and Town Enterprises

Credit is one of the important economic factors in the development of township and town enterprises. It takes a long-term, moderate, and steady credit investment policy to enable township and town enterprises to realize sustained, coordinated and stable development. [passage omitted]

Today, when the speed of development of township and town enterprises has declined to a less than ideal low level, a substantial number of enterprises everywhere urgently need the investment of new credit in order for their production to improve. At a time when the township and town enterprise economy has to continue macroeconomically to maintain an important position and role, the scale of Bank of Agriculture loans to township and town enterprises cannot continue to be cut. Too much of a cut will be neither helpful to township and town enterprises in crawling out of their production trough to get on with a reasonable degree of growth, nor will it help foster reserve strength for the development of township and town enterprises. The current situation suggests, first, that readjustment of the

increase in the amount of credit is needed, the extent corresponding or being slightly lower than the overall scale of increase in national credit in order to support key points while taking care of ordinary enterprises at the same time. Township and town enterprise credit during 1990 shows a slight increase in agricultural credit cooperative investment of credit, but there is a very great unevenness in this investment. Most of the money is concentrated in southeastern coastal areas and in the suburbs of large- and medium-sized cities, or in rural credit cooperatives in the vast west-central region where except for the issuance of credit for agricultural production, virtually no money was re-invested in township and town enterprises. The west-central region is both a region in which there are a fair number of processing, energy, and mining enterprises and also a region in which township and town enterprises got off to a late start, developed slowly, and have poor self-development capabilities. Since credit cooperatives in these areas do not have much money to issue now, and since the amount of increase in Bank of Agriculture credit is scant, township and town enterprises in these areas face much "gasping" and "stoppages." Unless credit investment is increased, fulfillment of the nationwide plan for 15 percent growth in township and town enterprise will not be fulfilled in 1990. To a certain extent, this may also adversely affect fulfillment of the nationwide industrial plan.

Second, some increase in production equipment loans is needed in response to technical progress, for rational readjustment of the economic structure, and to maintain appropriate reserve strength for development. Externally oriented enterprises in coastal regions have developed fairly quickly, and many of their products can be exported to earn more foreign exchange for the country. However, since neither their equipment nor production capacity can meet requirements of international markets, the expansion of their exports or their export capacity is impaired. Further technical transformation is required. Large numbers of key enterprises that produce for the domestic market also need to make their products more suitable and to help their development in accordance with state industrial policy and market changes. They likewise require support in the form of funds for technical transformation.

In short, maintenance of the important role of township and town enterprises in the national economy, and maintenance of a proper speed of development of township and town enterprises require that moderate increases now be made in the investment of credit in township and town enterprises.

Township Enterprises Correct Dual Structure Drawbacks

91CE0042A Beijing ZHONGGUO XIANGZHEN QIYE
BAO in Chinese 28 Sep 90 p 3

[Article by Chao Yiguo (6389 0110 0948) and Yan Conghai (0917 1783 2037): "Dual Structure and Township-Town Enterprises"]

[Excerpts] The Sudden Rise of Township and Town Enterprises Has Initially and Is Now Rectifying Many Drawbacks in the Dual Structure

The drawbacks embodied in China's dual structure are quite evident, and they are mainly manifested in the deformity of traditionally locating industry in cities. The traditional industrialization strategy practiced by China was a line that made use of the peasants' enormous accumulation to develop rapidly, in a small number of large- and medium-sized cities, large-scale industry with nationalized heavy industry as its core. As a result, rapid progress was made by the industrial productive forces of a small number of cities, and the great number of rural areas remained in a backward state.

Since there is a particular contradiction between the sudden rise of the township and town enterprises and the dual structure, once this sudden rise occurred there could not but also occur a reaction in the particular environment it produced. On many occasions this reaction was manifested in its effect of rectifying the drawbacks in traditionally locating industry in cities. Because of the sudden rise of the township and town enterprises, particularly the township and town industries, greatly promoted the growth in the rural areas of small cities and towns and of market towns, we can also say that the drawbacks of traditionally locating industry in cities are being rectified by the urbanization of township industries. This rectification is mainly manifested in the following aspects:

1. Traditionally locating industry in cities repelled peasants, but the urbanization of township industries attract them. Over the past 20 to 30 years, in order to insure the rapid expansion of urban industry, the government took a series of seemingly all-encompassing policy measures to restrict the entry of peasants into cities. In these policy measures, nothing had a greater effect than the household registration rules and regulations. Given the restriction of some rules and regulations, it was easier for a peasant to climb into the heavens than to enter a city and engage in industry or trade. If a peasant was registered in a rural household he could not get the right to reside permanently in a city. Also, in the supply of grain, edible oil, water, electricity, and coal, the peasant basically could not get enough to live. What is fortunate is that, in the end, this situation will be broken by the great tide of the transformation to township and town industries and the transformation to cities and towns. Over the past 10 years the nonagricultural enterprises in townships and towns, with township and town industries in the forefront, have attracted 95 million members of the rural areas' surplus labor force (corresponding to the total number of staff and workers in today's state-run enterprises), accounting for 23.8 percent of the labor force in the rural areas. These people have begun to enjoy the civilization in towns and cities, a fact that is doubtless of essential significance for their development and progress. If there had been no sudden rise of township and town enterprises, these members of the labor force would still be tied down in the rural areas, engaging in

productive labor in which output was marginally lower than income. Under these circumstances, the issues of the modernization of agriculture, the development of the rural areas, as well as the progress of peasants could not have been put on the daily agenda. [passage omitted]

2. Traditionally locating industry in cities was done at the expense of the peasants, but the urbanization of township industries enriches and develops them. As everybody knows, up until the founding of the PRC in 1949, China had been awash in the boundless ocean of the small-scale peasant economy. Once the PRC was founded, the party and the state faced the historic task of building a highly industrialized country. The question was: Where would the enormous sum of money required for this purpose come from? Relying on the original industries to accumulate the money themselves obviously wouldn't work, because China's original industries were too small, weak, and also incomplete. The practice of some old-line capitalist countries accumulating funds for industrialization by means of foreign expansion was, for us, even less desirable. Because China was too large and too poor, it was also impossible to depend on foreign aid. The only remaining way was to depend on agriculture for the accumulation. This way was not only adopted by China; some other countries, including the Soviet Union, once adopted it. China's specific measures for higher accumulation by agriculture were: setting up an agricultural tax system, a price scissors system for agricultural and sideline products, as well as a voluntary work system. According to statistics, in a little over 30 years after the founding of the PRC, through the above-mentioned means the state accumulated for industrialization nearly a trillion yuan in construction funds, about equal to the total value of the fixed assets today of state-run enterprises. In line with this fact, we can conclude that the industrialization system in its initial scope was established on the basis of the enormous contributions made by peasants. The party and the state profoundly understood this point, and so there was a policy for 10 years of enriching the peasants. Under the influence of this policy, in the tide of the transformation to township and town industries and the transformation to cities and towns, each wave has risen higher than the last. Consequently, the peasants have prospered. In the 1978-1988 period, from the production and business activities of township and town enterprises, they obtained a total of 382.832 billion yuan in wage and salary income.² In 1988 alone, the salaries and wages of staff and workers in township and town industries totalled 105.49 billion yuan, an average salary or wage income per person per year of 1,126 yuan.³ In places where township and town industries have grown, a peasant's income derived from township and town enterprises accounts for about 50 percent of his household's net income. With this as a starting point, the peasants have begun to move toward progress and civilization. The township and town enterprises have trained a large

number of peasant entrepreneurs, and even more administrative and managerial talents and technological talents. In them we see China's modern peasant in embryonic form.

3. Traditionally locating industry in cities "draws blood" from agriculture, but the urbanization of township industries "transfuses blood" to and "makes blood" for agriculture. Traditional industrialization absorbs an excessive amount of agricultural products, thereby seriously harming agriculture's efficacy in self-accumulation. The state put its main energy on heavy industry and correspondingly reduced its investment in agriculture. In the First Five-Year Plan, agricultural investment in both absolute terms (4.183 billion yuan) and relative terms (7.9 percent) was very low. In the Second Five-Year Plan period, there was a fairly large rise in these numbers, namely, 13.571 billion yuan and 11.3 percent. In the three-year period of adjustment, agricultural investment per year went down a little in absolute terms, but its proportion rose from the previous 11.3 percent to 17.7 percent, the highest level since the founding of the PRC. In the Third and Fourth Five-Year Plan periods, agricultural investment in absolute terms (respectively 10.427 billion yuan and 17.308 billion yuan) rose, but the relative proportional share stopped at about 10 percent. After 1980, agricultural investment, in both absolute and relative terms, tumbled, thereby seriously weakening the reserve strength for agricultural development.⁴ The development of township and town industries greatly changed this investment situation. By "making industry support agriculture" ("transfusing blood") and "making industry build agriculture" ("making blood"), this development increased agricultural investment, transformed agricultural technology, and promoted intensive-style farming in agriculture. Over the past 10 years, the township and town enterprises have directly used 16.28 billion yuan to support and build agriculture, an amount equal to 34 percent of the state's agricultural investment in the same period. In addition, the funds used to build various locally operated undertakings in the rural areas totaled 72.8 billion yuan. For China's agriculture, which was "crying piteously for food," this was, without a doubt, "a shower of seasonable rain."

4. Traditionally locating industry in cities only stresses the industrialization of a small number of large- and medium-sized cities, and seriously neglects the development of industry in the vast rural areas. However, the urbanization of township industries helps to develop industry in the rural areas as a whole, and causes a trend toward the coordination of industrialization in the country as a whole. In the course of the industrialization in the past, there was objectively created a dual structure—city-industry, rural areas-agriculture. Even if urban industry was self-sealed and self-serving, it lacked vitality and reserve strength. It also held back the rural areas and agriculture, which could not get the powerful support of industrial technology. This support, as proved by the practice of developed countries, is the key link in

agricultural modernization. Without a doubt, the above-mentioned situation caused a dual impasse in industrialization. The development of enterprises in the transformation to township and town industries and the transformation to cities and towns has begun to break this impasse. Township and town enterprises not only have assisted agriculture and developed the rural areas, but also have formed for urban industry a complete set of huge productive systems, and have brought with them a historic opportunity for making a structural adjustment and switching the systems onto the track of urban industry. Although the township and town enterprises are the competitors of urban industry, this competition enhances the vitality of urban industry and promotes its systemic reform. Doubtless, this competition is of the highest benefit. The profound significance of township and town enterprises is that they have linked up with both urban industry and rural agriculture, and that they have established a close relationship with both of them. In this sense, traditionally locating industry in cities severs town and country, but the urbanization of township industries merges them.

5. Traditionally locating industry in cities rejects the commodity economy, but the urbanization of township industries develops the commodity economy. China's traditional industrialization was born in accompaniment with the system of a highly centralized planned economy. It can also be said that without this powerful capability for rapid mobilization of personnel and for the transfer of society's resources, it would have been practically impossible to industrialize China. However, this planned system at the same time, in the form of noncommodity monetarization, used these resources in such a way that the efficacy of resource utilization was very low. Not only was this the case, all sorts of mechanisms that derived from the planned system—such as the state monopoly on supply and marketing, joint responsibility for profit and loss, paternalism, "eating out of one big pot," "iron rice bowl," etc., ran counter to the inherent demands of the socialist commodity economy. Moreover, the effect of these inherent demands, because of the inertia of traditional industrialization, vanished without a trace. However, in the end this effect opened the way for the sudden rise of township and town enterprises. As a product of the inherent demands of the socialist commodity economy, the township and town enterprises are bound to promote the further growth of the socialist commodity economy. Practice shows that the economy of the township and town enterprises is a fairly pure commodity economy, and that its operating mechanisms in many aspects possess a very strong nature of the commodity economy, for example, the self-raising of funds, self-purchasing of raw materials, self-marketing of products, self-responsibility for profit and loss, and so on. Even if the intervention by township and village governments in their production and business activities is still quite evident, the commodity producers and businessmen have clearly established a relatively independent position in the township and town enterprises. This tendency—the main body of

interests becoming independent—is a prominent manifestation of the growth of the socialist commodity economy. Some people even think that the independence of the townships' and towns' interests and the flexibility of their business operations have provided a good lesson for the reform and development of state-run enterprises in cities.

Summing up what has been said before, we can conclude that traditionally locating industry in cities has created the "dual structure," but that the urbanization of township industries works to eliminate this "dual structure," even if the process of elimination will be very lengthy. Most likely, this is the great historic significance of township and town enterprises.

Footnotes

[footnote 1 omitted]

2. Township and Town Enterprises Department, Ministry of Agriculture: "Statistical Data on Township and Town Enterprises (1978-1988)."

3. XIANGZHEN QIYE QINGKUANG [TOWNSHIP AND TOWN ENTERPRISES], No 3, 25 May 1990.

4. He Xiaodong [6320 2556 2639]: "Pattern of Distribution in Town and Country Economic Relations," ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY], No 3, 1988.

CONSTRUCTION

Capital Construction Investment by Usage, Affiliation

HK0711100590 Beijing CEI Database in English
7 Nov 90

[Text] Beijing (CEI)—Following is a list of capital construction investment by usage and affiliation in the first three quarters of 1990, released by CSICSC [China Statistics Information Consultancy Service Center]:

	(in 100 million yuan)	1-9/89
Total investment	852.46	774.31
By affiliation		
Central project	469.37	438.76
Local project	383.09	335.55
By usage		
Productive project	617.62	547.01
Non-productive project	234.83	227.3
of which: Housing	92.84	84.62

Jiangsu Port Boosts Capital Construction

OW1611090990 Beijing XINHUA in English
0230 GMT 16 Nov 90

[Text] Nanjing, November 15 (XINHUA)—The Lianyungang City Government is speeding construction on its harbor and other basic facilities for the purpose of "turning Lianyungang into an eastern Rotterdam" as quickly as possible.

The city, which is located in northern Jiangsu Province, east China, stretches 40 kilometers along the coast of the Yellow Sea.

Daliangang Harbor, which has an annual handling capacity of 15 million tons, ranks eighth in size amongst harbors in China.

The harbor administration launched a project in 1982 to create land from the shallows near the harbor in order to expand its land area. At present, a total of 200 million square meters of land has been created and put into use.

The three-year project to construct a 6,780 meter sea dam, longest in the country, is now half finished. When the project is completed the functional water area of the harbor will be increased ten-fold, and the harbor will have 100 berths with a total handling capacity of 50 million tons annually.

The city has also invested 1.5 billion yuan to improve the equipment in the harbor area in the past few years. The area now has over 30,000 program-controlled telephones, a thermal power station with an installed capacity of 400,000 kilowatts, and a 37 kilometer first grade highway.

In addition, the region's medium-sized airport has been expanded, and the newly-opened economic and technical development zone has attracted hundreds of foreign-funded enterprises.

After the completion of the new Eurasian Continental Bridge—the second railway to link Asia and Europe, Lianyungang will be directly linked with Rotterdam, the Netherlands, an important international land and water transportation and commerce center.

The second Eurasian Continental Bridge is expected to provide great benefits for the development of Lianyungang, and the city expects to become an important international cargo transfer center similar to Rotterdam.

Currently, a container plant with an expected annual output of 100,000 standard containers, and other auxiliary facilities are under construction.

FOREIGN TRADE, INVESTMENT

Journal Invites Debate on Appropriate Concessions for GATT

91P3003A

[Editorial Report] The 30 August 1990 issue of Beijing's GUOJI MAOYI WENTI (INTERNATIONAL TRADE JOURNAL), the Chinese-language journal of the Ministry of Foreign Economic Relations and Trade-affiliated University of Foreign Economic Relations and Trade, carried on pages 36-39 an article titled "The Position and Treatment of State-Operated Trade in GATT." Author Hu Runfu [5170 3387 4395] discussed the historical record of the terms under which countries with centrally planned economies have been admitted to the GATT and identified the following four issues as worthy of attention.

First, Hu noted that in view of the evolving nature of state-run trade, GATT regulations governing this form of trade are becoming increasingly inadequate. He cited as evidence the frequency with which GATT members have had to make exceptions or adopt temporary measures to accommodate the successive accessions of East European countries to the GATT.

Second, Hu observed how GATT members have been attempting gradually to incorporate East-West trade into its multilateral trading system by focusing increasingly on developing trade relations with countries practicing central planning. According to Hu, although the GATT's founding members discussed the subject of planned economies while drafting their original agreement, they did not include any concrete regulations to govern the accession of such countries into the GATT. This, he noted, has created difficulties for these countries ever since.

Third, Hu said that because China's domestic industrial development still needs tariff protection, its current position of seeking only to lower tariffs as a concession for resuming its former contracting party status within the GATT should at least be "opened up for discussion." As an alternative, he proposed that China agree to import a specified amount of goods, that this amount be tied to the country's actual foreign exchange earnings and import capacity, and that the amount be adjusted according to its international balance of payments status and exchange rate fluctuations. He stated that this alternative would provide the following three benefits: 1) it would guarantee China's ability to fulfill its import obligation; 2) it would automatically ease China's import obligation in times of deficit; and 3) it would prevent China's import obligation becoming too onerous in cases of currency fluctuations. Hu observed, however, that adopting this alternative would require an examination of the current strength of China's negotiating position as well as consideration of China's likelihood of winning acceptance from the contracting parties.

Fourth, Hu spoke of the need for China to "hasten the process of foreign trade and related economic reforms" so that it may reduce its level of obligation in accordance with the GATT's clause on state-run trade. Acknowledging that "foreign trade corporations (FTCs) still lack the necessary degree of vitality" despite recent foreign trade reform measures, Hu said that the state "must" employ sound administrative and economic measures to separate the functions of government and enterprises in foreign trade, simplify administrative procedures, delegate more authority, and end the state monopoly on foreign trade. According to Hu, this would improve China's foreign trade performance by exempting FTC's in possession of full administrative authority from the customary restrictions applied by the GATT to state-run trading enterprises and thus increase their competitiveness in the international market. Finally, this would create conditions for eventually making the reduced tariff format the appropriate obligation for China to assume in exchange for contracting party status.

Strategy for Overseas Contracts, Service Exports

91CE0007A Beijing GUOJI SHANGBAO in Chinese
15 Sep 90 p 3

[Article by Zhang Wencheng (1728 2429 2052): "China's Strategy in the 1990's for Overseas Construction Contracts and Service Exports"]

[Text] China has been engaged with overseas construction contracts and service exports for ten years, has reaped significant economic and social benefits, and has trained and seasoned a large corps of management and labor for international construction projects. Now that the 1990's are here, we are faced with a very important issue: How should China readjust its overseas construction contract and service export program? What kind of development strategy should be formulated?

I. We Must Research the Market and Identify Our Goals.

The international market is our operating arena and the objective basis of the operational programs which we formulate. We must research the global market, regional markets, and the markets of different countries individually. Markets in different regions and countries have different characteristics, so our operating methods and tactics must also vary. We must tailor our operational activities to match conditions in various regional or national markets, otherwise we are not likely to achieve the intended results. Some large companies in the West are thoroughly familiar with the international market. They operate very flexibly and are able to monopolize and control markets. If we do not stay abreast of market changes we will find it difficult to compete with them. From a long-term strategic standpoint, we must address this problem seriously. If we are to stay abreast of the market, we must be good at researching the market with an eye to the accomplishment of specific goals. We must

develop information networks, cultivate a broad spectrum of friends, and expand channels of cooperation.

After getting a clear picture of the market by means of research and study, we must choose markets in which China has advantages and target our efforts upon deepening and expanding China's participation in them. Distribution should not be too concentrated or dispersed. Some markets, though good, are of limited capacity. If we swarmed in all at once, we would end up competing against ourselves and enterprises would be forced to cut prices. When deciding whether or not to enter a certain market, who enters first, and who enters later, we must base our decision on whether the market has items which present us advantages which we can capitalize upon. We must retain a sense of national identity and trade consciousness, whether dealing with new markets or old ones. We must help each other out and make a contribution to the country.

II. We Must Concentrate on Long-term Goals Instead of Short-term Ones, and Capitalize On Our Advantages.

We have known since antiquity that if you know yourself and your adversary you can fight 100 battles without losing. Most of our competitors are construction contractors from capitalist countries with decades or more than a century of history. They are very strong in terms of technology and equipment, and their operational and management ability is highly developed. They are familiar with international markets and networks of cooperation, and they also have very good credit. We have achieved much progress during the last ten years and have created certain advantageous situations, but we are still a long way behind the West. If we are to reap good returns in the international market for construction contracts, and if we are to compete successfully, we must close this gap more rapidly. We must continually improve our management skills and fully capitalize on our advantages.

When it comes to high technology and large-scale construction projects, some Western companies have the advantage in terms of funds, technology, and management, thus it is difficult for us to compete with them. However, we have the advantage when it comes to medium- and small-sized construction projects in the Third World which require only regular technology. Companies under the central government can capitalize on the advantages which accrue from their specialization, and companies at the provincial (municipal, autonomous region) level can capitalize on local advantages. Any project in which we capitalize on our advantages is one which will produce good economic returns, while projects which are beyond the ability of our companies to handle advantageously are unlikely to yield good economic returns and may even cause losses.

III. We Must Reach Out in All Directions and Try To Win the Job of General Contractor.

We should concentrate on a single industry and diversify operations. We must first strive for overall management

of contracting projects. The procedure of an international construction project is generally divided into three stages: initial, middle, and final. In the initial stage, design and consulting work is done. In the middle stage, bids are taken and the actual construction is performed. In the final stage, equipment is supplied and production, operations, and management are commenced. In the past, China most often participated in the middle stage of the contract but did not often get involved in the initial or final phases. This was necessary at first because our work in the areas of consulting, design, and equipment supply had not yet reached a high enough level. However, in the future we will gradually attain the requisite capabilities, while aggressively expanding in order to handle entire projects. Competition for construction projects at this time is especially intense and conditions are very difficult. Prices are being cut too low and risks are high, so in the future we must work hard to expand into the initial and final stages of construction projects.

It is reported that the total value of contracts won every year by each of the top ten of the world's 250 major contracting firms is between \$2 billion and \$5 billion. Over 90 percent of these huge figures is not set through competitive bidding but through negotiation. They pay most attention to the initial and final stages of a project. They rely primarily on consulting, design, and the supply of equipment and materials to make money. They take the initiative to perform the work involved in the initial stage of a project. They use negotiation rather than a bid to take charge of contracts for everything—design, consulting, delivery of goods, and construction. They serve as the general contractor and divide the project into several smaller projects which they then subcontract out either by calling for bids or by negotiating. They are in the driver's seat and have the right to use the production techniques, equipment, and technical specifications of their own countries, and to provide experts, training, and parts, thereby winning large contracts and profits. We should do as they do. We must participate actively in bidding in order to win contracts, and we must also cultivate dependable relationships so that we can negotiate with many different parties (or give the appearance of bidding competitively while engaging in negotiations behind the scenes) in order to win the position of general contractor.

Apart from a few large, specialized companies, most companies in China lack the capability to serve as general contractor for large, high-tech projects. We cannot compete with the West in this area. However, we have the ability and the advantage when it comes to contracting for regular projects of small- or medium-sized, or for turnkey projects. There are big markets in the countries of Asia, Africa, and Latin America. We should strike out with definite targets in mind, actively advertise our presence, and win contracts through negotiated bids. We cannot wait for business to come knocking at our door.

IV. We Must Actively Drum Up Business and Expand Into Design and Consulting.

Long experience has shown that in order to gain the position of general contractor, one must go out and actively drum up business. After gathering all the relevant information through study and investigation, the initiative has to be taken to present plans and strategies to businesses and investment groups, providing them, free of charge, with research on investment opportunities and feasibility studies, in order to spur the interest of businesses and investment groups in making investments, as well as to gain the right to provide design and consulting services. If one can win the confidence of businesses or investment groups by doing the up-front work and is awarded the right to provide design and consulting services, then the possibilities will be: using Chinese equipment and materials for all or part of the project; keeping production and operation in Chinese hands; obtaining the right to take charge of the middle stage (actual construction) and subcontracting it out. In this way one could become the general contractor without submitting a bid. This is what is meant when people speak of creating a project where none exists, creating investors where none are present, and raising funds where there are none to be found.

Some large companies abroad rely primarily on design, consulting, and supplying equipment and materials (rather than construction) to earn high profits. The governments of developed Western nations attach great importance to the international consulting and design activities of companies in their countries. For example, in order to support the efforts of companies to carry out international consulting and design, the governments of the United States, England, Canada, Germany, Italy, and Japan have appropriated funds to pay for most expenses connected with trips to study conditions abroad and to provide consulting services. They have also implemented a series of concessionary policies, such as tax reductions and exemptions, low-interest loans, etc. India, a country not more advanced than China in terms of its economy, technology, or level of expertise in construction, has a large contingent of design and consulting personnel very active in the Third World. They receive various concessions from the Indian government, including subsidies for study trips and consulting activities, tax reductions and exemptions, low-interest loans, etc. If China is to compete successfully in the international marketplace in the 1990's and earn more foreign exchange, we must necessarily take this same route, and aggressively expand into the design and consulting aspects of international construction contracts.

There are now several hundred design academies and institutes in China with a large corps of designers and technicians. In some of these academies and institutes, the skills of the designers have reached international

standards. China is carrying out 1,500 foreign aid projects, all of which have been designed in our own country. The design of many of these projects is highly acclaimed. China has received loans from the World Bank and the Asian Bank as well as loans from various governments in order to carry out various projects, most of which have been designed by China either on its own or in cooperation with other countries. In recent years, some Chinese companies have gotten involved in international consulting and design activities. They have accumulated experience and begun to familiarize themselves with international standards. This shows that China's corps of design and technical personnel is gradually attaining the ability to participate in international consulting and design activities. If we aggressively promote these activities, we will be able to enter the international market and become increasingly larger.

V. We Must Learn the Way of Business—Borrowing Money To Make Money.

Funding problems are universal right now. The way to resolve them is by aggressively raising funds on your own and by using international financial markets to raise funds. Large Western companies do not rely totally on their own funds to win construction contracts, and some businesses do not rely totally on their own funds to invest in development projects. Most private businesses and contractors resolve funding problems by raising funds internationally. As long as the project is a good one which meets requirements, banks are willing to make loans. The most salient characteristic of China's current financial system is that it is part of a planned economy, so it is regulated very closely, while the operations of Western banks are very flexible. They have many methods of operation. As long as we apply ourselves to the task diligently and handle contacts with banks in a skillful manner, funding problems can be resolved. Operating funds needed for construction projects and funds needed so that companies in China can supply equipment can all be collected while construction is in progress and goods are being delivered. As long as work is completed on schedule, funds can be collected on time. Funds needed for the initial investment as well as those needed to keep construction going can be raised in financial markets. The key is to formulate measures for avoiding or reducing risk by performing high-quality feasibility studies up front. In particular, we must do good research on the expected economic returns from a project and on the ability of the borrower to repay loans. We must also earnestly analyze risks. If we can succeed in convincing businesses and banks of the quality of a given project (e.g.—that economic returns and profits will be high, and that risks can be avoided), then investment groups and banks will naturally be interested in investing, and they will not only enable businesses to make investment, but will also provide operating funds to contractors.

New Foreign Trade 'Reform Plans'

91CE0037A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 10, 1 Oct 90
p 26

[By Shao Wei-chia (6730 0251 0163)]

[Text] New programs for reforming foreign trade have been under discussion for a long time. However, the issues involved are complicated, and up to now nothing has been decided. It is likely that contracts will continue to be undertaken. However, there will be changes in their content and in how they are specifically accomplished. As a general principle, it is important that they enable foreign trade to be in harmony with the reform program for the entire country and that they are able to promote the growth of foreign trade.

In recent years, the contribution of the contract system to the growth of China's foreign trade cannot be denied. In 1987, China's foreign trade exports were approximately \$38.5 billion. In 1988, following the implementation of contracts, they jumped to \$47 billion. By 1989, they had broken the \$50 billion barrier. This kind of increase could not have occurred without the contract system. Contracts also had some side effects. Many of the present problems in foreign trade can be linked to the contract system.

Judging from our present perspective, "assuming sole responsibility for one's own profit and loss and giving free rein to management" was not a proper approach in 1988 when reform of foreign trade was first begun and contracts were put into effect. Announcement of the slogan gave rise to the following:

—Confusion in foreign trade management. Foreign trade is a choice cut of meat. Those involved not only can make money and acquire goods; they can also go abroad. As a result, many local authorities and departments, taking advantage of the upper echelon having burst the dam and avowedly to earn foreign exchange for the country, began setting up foreign trade units all over the place. A great many of these units not only lacked sources of goods, markets, and funds, they also lacked the managerial talent needed for foreign trade. Consequently, at home they could only obtain goods by paying high prices, and abroad they dumped goods at low prices, throwing China's normal export channels into disarray. The extent of the problem can be seen in the fact that, since 1989 with improvement and rectification, a total of more than 1,300 of these foreign trade units (companies) have been lopped off.

—Poor quality export products and low-level contract performance. It was recognized at the "National Work Conference on Exports" that was held at the beginning of August that, for the past several years, one of the main factors impinging on China's expansion of foreign trade has been the poor quality of its products that is affecting the confidence of foreign businessmen. For example, it used to be that China's

cotton yarn, cotton gray, cotton-polyester yarn, and cotton-polyester gray were considered 24-carat gold and were exempt from examination in many countries. Recently, however, they have become the target of complaints from foreign businessmen. In 1989 alone, the United States lodged some 27 claims against China for cotton yarn and cotton gray in the amount of \$350,000 and for cotton-polyester yarn in the amount of \$1.2 million. Japan lodged 19 claims involving 1.33 million yards of cotton gray in the amount of \$110,000. Hong Kong, which in the past has presented very few claims, lodged 84 claims involving ports in the amount of \$7.5 million.

—Because of constraints on supplies and funds, delivery of goods are often not on time. This leads to a great many complaints from foreign businessmen.

What then will be the next step in reforming foreign trade? It will, of course, have to be directed at the presently existing problems. Foreign Economic Relations and Trade Minister Zheng Tuobin [6774 2148 1755] revealed his intentions at the August work conference when he declared, "We are in the process of drafting a program, which will conform to China's special circumstances and the international trade situation, will be in harmony with national economic reform, and be able to effect relative stability for several years."

Zheng Tuobin disclosed that this program will meet the needs of foreign trade development, while trying to step up the pace somewhat, and also, to facilitate implementation, will maintain continuity of policy. At the same time, while dealing with such problems as unified policies, fair competition, and sole responsibility for one's own profit and losses, it will strengthen macroeconomic regulation and control, invigorate enterprise management, and benefit rational readjustment.

The writer has, through another channel, learned of reform plans that are more specific than those Minister Zheng discussed: 1) Readjustment of the exchange rate. Exchange rates will be readjusted between the national average costs in terms of foreign exchange and foreign exchange adjusted market prices. At the same time, base figures for subsidizing foreign exchange operating losses will be eliminated. 2) In readjusting the method of distributing retained foreign exchange, the amount of foreign exchange collected by the central authorities will be appropriately increased. At present, about 40 percent of foreign exchange income goes to the central authorities, and of this amount, about 38 percent comes from exports. This portion will increase to 50 percent. At the same time, the amount of foreign exchange retained by local authorities and enterprises will be appropriately reduced. 3) To strengthen the classification controls of export products, the central authorities' portion of mandatory planning and unified management of exports will be increased. 4) Rectifying foreign trade companies. Foreign trade managerial authority of specialized foreign trade companies, industrial-trade companies, and production enterprise groups will be retained. It will be rescinded for the other companies.

Inside sources have revealed that the most difficult problem now is allocating the amount of foreign exchange to be retained and the financial subsidies.

Shanghai's Machinery, Electronics Exports Ahead of Target

91P30031A Shanghai JIEFANG RIBAO in Chinese
13 Oct 90 p 1

[Summary] In 1990 the growth rate of Shanghai's machinery and electronics exports has continued to surpass the average growth rate for the municipality's overall exports. From January through September, machinery and electronics exports earned \$748 million, a 19.8 percent increase over the corresponding period in 1989. Shanghai thus has fulfilled well in advance its \$624 million annual target for machinery and electronics exports. Over \$100 million of this target was earned by 25 independently run industrial export enterprises whose performance represented a 56.7 percent increase over the same period in 1989. Machinery and electronics exports accounted for 18.9 percent of Shanghai's total exports during the first three quarters of 1990, up 1.73 percent over the corresponding period in 1989.

Imports Witness 'Recovery'

OW2110121990 Beijing XINHUA in English
1133 GMT 21 Oct 90

[Text] Beijing, Oct 21 (XINHUA)—Although the 4.4 billion [as received] worth of imports chalked up in September was 0.2 percent down on the figure for September 1989, it still represented a clear recovery from the August and July figures, according to a statistics report compiled by the Chinese customs. Today's CHINA DAILY quoted the report as saying, the imports value for August was 9.7 percent down on the figure for August 1989, while that for July was 15.1 percent down on the July 1989 figure.

Imports have been declining since the beginning of the year. The sharpest drop occurred in April when the country's imports volume was 25.8 percent down on the figure for the same period last year.

According to an official from the Ministry of Foreign Economic Relations and Trade (MOFERT), the central government is to relax control on lending and banks are expected to provide more loans for technology imports. In addition, some western countries had begun to ease economic sanctions. All this would push up demand for imports or help boost the imports recovery.

The statistics report said the country sold 5.1 billion [as received] worth of goods abroad last month, 7.2 percent up on the figure for September 1989.

And the total foreign trade value for September hit 9.53 billion U.S. dollars, a 3.6 percent increase on the figure for September last year.

It was the second consecutive month this year that the country witnessed an increase in total foreign trade volume.

Fujian Machinery, Electronics Exports Increase

OW0811104690 Beijing XINHUA in English
0854 GMT 8 Nov 90

[Text] Fuzhou, November 8 (XINHUA)—Fujian Province exported 300 million U.S. dollars worth of machinery and electronics between January and September of this year.

The export volume was not only 82.4 percent more than that of the same period last year, but also fulfilled the export target set by the state four months ahead of schedule.

Since the beginning of this year, the province has made efforts to readjust the production structure of its 25 machinery and electronics enterprises and to ensure the supply of funds and materials to the enterprises.

The production units also strengthened management and improved quality in order to make their machinery and electronics products more competitive on the world market.

Shanghai Develops Overseas Labor Service Cooperation

OW1011155590 Beijing XINHUA in English
0803 GMT 10 Nov 90

[Text] Shanghai, November 10 (XINHUA)—Since 1984, Shanghai has sent 13,500 laborers overseas to work in various construction projects.

The Shanghai Foreign Economic and Technological Cooperation company recently reported that by the end of October this year Shanghai had signed nearly 300 contracts valued at 340 million U.S. dollars for overseas labor service cooperation.

Since it's introduction overseas labor service cooperation has earned the city more than 50 million U.S. dollars.

Shanghai, China's largest industrial city, started the service in 1981, and has since expanded its presence in the world labor market by using its advantages in technology, quality and speed.

The Shanghai Foreign Economic and Technological Cooperation Company and the Shanghai International Tendering Company are participating in the construction of a servicemen hotel in Thailand, a fishing net plant in Iran, an international conference center in Egypt, and a gourmet powder factory in Hong Kong.

The labor services available in the city include laborers, scientists and technicians, who have been sent to work in more than 60 countries and regions.

Statistics Show Foreign Investment Up*OW1111144790 Beijing XINHUA in English
1432 GMT 11 Nov 90*

[Text] Beijing, November 11 (XINHUA)—By the end of September this year, 26,568 enterprises involving foreign investment had been approved in China, according to the statistics from the China Association of Foreign-Funded Enterprises.

In the same period, the contractual foreign investment reached 37.8 billion U.S. dollars while the committed sum amounted to 17.7 billion U.S. dollars.

The statistics also shows that the foreign invested enterprises ratified in the three years after the association was founded is 1.6 times the total number approved in the nine years before the founding of the organization.

Tianjin Exports Increase Over Previous Year*SK1411143590 Tianjin City Service in Mandarin
2300 GMT 12 Nov 90*

[Summary] The foreign economic and trade fronts across Tianjin Municipality have achieved marked achievements in earning foreign exchange through export thanks to tapping potential, increasing economic results, and carrying out the campaign of increasing production and practicing economy as well as of increasing income and curtailing expenses. During the January-October period this year, the volume of commodities exported by the municipality reached \$1.44 billion, a 9.4 percent increase over the same period of 1989. Of these exported commodities, the volume of machinery and electric goods reached \$315 million, a 28.9 percent increase over the same period of 1989. The 12 municipal foreign trade enterprises, including the Tianjin Foreign Trade and Local Products Company, have fulfilled or prefulfilled their export plans.

LABOR**Wages of Chinese Workers Increase***OW3010100890 Beijing XINHUA in English
0829 GMT 30 Oct 90*

[Text] Beijing, October 30 (XINHUA)—The payroll of Chinese employees climbed by 10.6 percent to 197.3 billion yuan in the first three quarters of this year, according to the State Statistics Bureau here today.

Deducting the price hike factor, the actual increase in pay stood at 9.5 percent—the highest growth rate since 1987, according to the statistics.

The pay increase was ascribed to the wage increase measures adopted by the Chinese Government.

The first quarter saw a growth of eight percent, the second quarter, 10.9 percent and the third quarter, 12.6 percent.

Trade Unions To Honor Industrial Management Contracts*HK3110025890 Beijing CHINA DAILY in English
31 Oct 90 p 1*

[By staff reporter Qin Xiaoli]

[Text] China's trade unions have pledged to give full support to the "contract system of industrial management" and will ask that workers play an active role in negotiating new contracts.

The industrial management contract system was introduced in the country's State-run enterprises in 1985 to link the manager's income with the enterprise's economic performance—in a major reform of the decades-old "iron rice bowl system."

Ninety per cent of the management contracts signed between factories and the government when the contract system was adopted five years ago will expire by the end of this year.

Yu Hongen, vice-chairman of the All-China Federation of Trade Unions and its first secretary, said in an interview with CHINA DAILY that the trade unions believe the contract system best fits China's present economic situation.

Because it successfully links workers' benefits with a factory's profitability, the contract system has greatly increased workers' motivation. At the same time, the system guarantees the government a fair return and ensures that factories will continue to update their technology and equipment, Yu said.

The trade unions should protect workers' interests while helping the government to appraise factories' performance, Yu said. Once new contracts are signed, workers should do their best to fulfil production targets, he added.

The contract system should reward both workers and managers.

The State Council, China's highest administrative body, has decided to continue the contract system and has asked local governments to refine the system, tailoring new contracts to the needs of individual factories.

Trade unions should take part in contract negotiations, Yu said, and new contracts should be approved by factory workers.

POPULATION**Results of Fourth Census***OW3010120890 Beijing XINHUA in English
1039 GMT 30 Oct 90*

[Text] Beijing, Oct 30 (XINHUA)—China has a population of 1,160,017,381, the State Statistics Bureau declared here today.

The population of 30 provinces, autonomous regions and municipalities directly under the administration of the central government of the Chinese mainland (not including Jinmen, Mazu and other islands of Fujian Province), and military servicemen comes to 1,133,682,501.

This figure was worked out by conducting China's fourth national census, with 0:00 hours 1 July 1990 as standard time, adopting the principle of direct registration of the people with the nationality of the People's Republic of China living permanently in the country.

According to the statistics released by the Taiwan provincial authorities at the end of March 1990, the population of Taiwan Province and Fujian's Jinmen, Mazu and some other islands is 20,204,880.

The population of Chinese compatriots in Hong Kong and Macao is 6,130,000, according to the statistics announced respectively by the British Hong Kong Government and the Portuguese Macao Government at the end of 1989.

From July 1, 1989 to June 30, 1990 in the Chinese mainland's 30 provinces, autonomous regions and municipalities, 23,543,188 babies were born and 7,045,470 persons died. The birth rate is 20.98 per thousand, the death rate, 6.28 per thousand and the natural growth rate 14.7 per thousand.

Demographers Call for Better Population Control Methods

*OW3010183790 Beijing XINHUA in English
1522 GMT 30 Oct 90*

[Text] Dalian, October 30 (XINHUA)—Demographers and social workers called for economic instead of administrative measures to help curb future population growth.

Experts attending the symposium on population and economic growth in China's coastal areas agreed that the lower fertility rates in the past two decades resulted mainly from the government's population control policies.

The successful policies must be stabilized in order to enhance people's confidence and avoid fluctuations in population growth rates, said Tian Xueyuan, vice-chairman of China's Population Science Society, at the symposium.

Tian said that the coastal areas have recorded better population control results and some of the experiences from these areas should be popularized in the rest of the country.

Tian called on population experts and social workers to explore the innate factors leading to long-term lower fertility rates. Through the adjustment of economic interests, people will want to have less children, so as to provide them with a better upbringing and education, he said.

New measures should be adopted to adjust the costs of bringing up a child, the demographer added, explaining that the costs and penalties should be higher for parents with too many children while one-child families should have better community services and receive priority in obtaining education, housing and jobs.

RENMIN RIBAO Hails Census, Affirms Population Control Need

*OW3010141690 Beijing XINHUA in English
1325 GMT 30 Oct 90*

[Text] Beijing, October 30 (XINHUA)—China's fourth national census—the largest of its kind in the world—has been successfully completed.

The State Statistical Bureau issued the first census results today and will announce more figures in the near future.

In an editorial to be published tomorrow, PEOPLE'S DAILY, China's leading newspaper, describes the successful completion of the census as "another great success since the country held the 11th Asian Games."

The population census was conducted under the unified leadership of the Central Committee of the Communist Party of China (CPC) and the State Council, and is an important investigation of national conditions and strength. The editorial points out that information obtained from the census is of great significance in planning national economic and social development, and in establishing policies governing population control. In addition, census results are bound to give added impetus to economic construction in China, and work in other fields.

China has a population of over 1.1 billion people, therefore population growth in China is the focus of world attention. The fact that such a large population census was completed so smoothly and in such a short period proves the superiority of socialism and the powerful leadership of the CPC, the editorial says.

Statistics from the current census will provide a more accurate picture of China's total population. The census results manifest that China has achieved fruitful results in controlling population growth and in raising the people's living standard.

However, China's population still increases at an annual rate of 17 million as a result of huge number of women at child-bearing age. The increase is also due in part to the influence of periodic baby booms, and ineffective family planning programs in many areas. As a result, population control is still an arduous task for China, the editorial says.

The newspaper urges party committees and governments at all levels to publicize the importance and urgency of population control and to combine population control with overall economic and social development.

Population Statistics for Guizhou Province*HK1311041590 Guiyang Guizhou Provincial Service
in Mandarin 2300 GMT 7 Nov 90*

[Excerpts] The Guizhou Provincial Statistics Bureau made public our province's census results today and announced a complete success of the fourth national census in our province.

By 0000 1 July 1990, the total population of our province had reached 32,391,066.

The notice published by the provincial Statistics Bureau says: Our province's census work had proceeded according to the unified nationwide arrangements. Thanks to the hard work done by 260,000 census workers, our province successfully fulfilled the census registration task. [passage omitted]

The recent census revealed our province has a total of 7,246,292 households with an average household population standing at 4.41. From 1 July 1989 to 30 June 1990, 763,438 people were born while 229,148 people died in our province. The natural growth rate of our provincial population stood at 16.64 per thousand. The number of people with college education in every 100,000 people rose from 338 to 777. The number of illiterate or partially illiterate people dropped by 5.6 percent. The population of the Han Nationality stood at 21,154,520, accounting for 65.31 percent of the total population of our province. The population of various ethnic minorities stood at 11,236,526, accounting for 34.69 percent of the total population of our province. [passage omitted]

Qinghai's Population Exceeds 4.45 Million*HK0811133990 Xining Qinghai Provincial Service
in Mandarin 2300 GMT 7 Nov 90*

[Excerpts] Yesterday afternoon, the provincial census office held a meeting to make public the fourth census of Qinghai Province.

As of 1 July, the total population of Qinghai Province was 4,456,946. The population of various ethnic minorities accounted for 42.1 percent of the province's total population. [passage omitted]

Data collected during the recent provincial census show that, compared with 1982, the total population of Qinghai has increased by 561,240 over the past eight years, representing a 14.41-percent increase. [passage omitted]

Among a total of 43 nationalities in our province, the population of the Zhuang Nationality ranks as the highest, which is followed by those of the Hui; the Tu; the Salar; the Mongol; the Man; the Dongxiang; and the Kazak. The combined population of Qinghai's ethnic minorities stands at 1,876,527. Over the past eight years, the population of the Han Nationality has increased by 9.34 percent, while the population of ethnic minorities

has increased by 22.19 percent. From 1 July 1989 to 30 June 1990, the natural growth rate of our provincial population stood at 15.81 per thousand. [passage omitted]

Bian Yaowu, a member of the standing committee of the Qinghai provincial party committee and vice-governor of Qinghai, spoke at the news briefing. On behalf of the provincial party committee and the government, he extended sincere respects and thanks to all the cadres and the masses who took part in the census registration and to the more than 40,000 personnel involved in census work across the province.

Bian Yaowu called on party committees and government organizations at all levels to publicize the importance and urgency of population control by making use of the recent census achievements, develop educational undertakings, improve population quality, and strive to promote Qinghai's development.

Coastal Economic Growth Spurs Population Surge*OW0711044090 Beijing XINHUA in English
0254 GMT 7 Nov 90*

[Text] Beijing, November 7 (XINHUA)—As economic growth continues in China's coastal areas, population control remains a challenge.

Tien Xueyan, a demographer with the Chinese Academy of Social Sciences, said that population in the coastal areas will continue to increase along with the development of the local economy.

While some developed cities and rural areas will enter a less-birth-high-production cycle, the birth rate in the less developed towns and rural areas will be hard to bring down, he said.

In 1987 the birth rate in seven of the 12 coastal provinces and municipalities was below the average national birth rate, while the average income in these areas was above the national average. In areas where the average annual income was below 1,000 yuan, the birth rate was above the natural population replacement rate; in areas where income was above 1,000 yuan the reverse was true.

Tien said that people will continue to flow to the coastal areas and urbanization in the areas will quicken. People in the age category of (?19-64) will increase, and more people will seek employment as a result.

The number of aging in the population will increase in these areas earlier than in the rest of China, according to Tien.

Above all, Tien said that controlling population remains a priority in these coastal areas. In the meantime economic rather than administrative measures should cause people to put more value on the quality instead of the number of their offspring.

Tibet Communique Details Census Results

*OW0911062490 Lhasa Tibet Television Network
in Mandarin 1300 GMT 8 Nov 90*

["Communique No 1 on Principal Data From the 1990 Census," issued by the Tibetan Autonomous Regional Statistics Bureau on 3 November 1990; from the "Tibet News" program]

[Excerpts] In accordance with the State Council's decision, the Tibetan Autonomous Region completed the fourth national census in line with the nation's unified plan. Regulations governing the fourth national census stipulated that the standard time for the census registration should be zero hours 1 July 1990. Considering the poor transportation facilities in Tibet, the State Council Leading Group for the Fourth National Census allowed Tibet to begin census registration one month earlier than the rest of the country. Tibet began its census registration throughout the region at zero hours on 1 June 1990. As for changes in population from 1 June to 1 July, unified readjustments were made in accordance with the standard time stipulated by census regulations.

Under the unified leadership of people's governments at all levels, and thanks to active support and coordination by people of all nationalities in the region, nearly 17,000 census workers, bringing the superior nature of the socialist system into full play and extensively mobilizing the whole society, worked arduously and carefully to obtain complete data on Tibet's population through direct investigation. After the registration ended, they reexamined and verified the data.

Spot-checks of the data show that registration was a great success. Currently, all the census data is being processed electronically. The manual work of compiling the principal data has been finished. We now publish it as follows:

1. Total Population

The total population in the whole region at zero hours Beijing time on 1 July 1990 was 2,196,010 people. All this data was obtained through direct investigation. Compared with the population figure of 1,892,393 obtained by the third national census at zero hours on 1 July 1982, Tibet's population has increased by a total of 303,617 people, or 16.04 percent, over the past eight years. The population increases an average of 37,952 people per annum, and the average growth rate is 1.88 percent per annum.

In accordance with regulations governing the Tibet Autonomous Region's fourth census as promulgated by our region, the targets of this census are people who are citizens of the People's Republic of China and permanent residents in the Tibet Autonomous Region. Therefore, no investigation of the number of Overseas Chinese or people of foreign nationalities residing in our region was conducted. [passage omitted]

2. Population in Family Households

Tibet has a total of 402,627 family households, with a population of 2,091,818, or 95.26 percent of the total population. Each family household has an average of 5.2 people.

3. Distribution by Sex

Of the region's total population, 50.03 percent (or 1,098,694 people) are males, while 49.97 percent (or 1,097,316 people) are females. [passage omitted]

4. Composition of Nationalities

This census has ascertained that Tibet has a total of 38 nationalities, an increase of nine minority nationalities over 1982, when the third national census was completed. They are the Li, She, Shui, Dongxiang, Jingpo, Sala, Gelo, Baoan and Jing Nationalities. This census also shows two of the minority nationalities living in Tibet according to the 1982 census, the Lahu and Yugu Nationalities, are no longer living in Tibet.

The population of the Tibetan nationality is 2,096,342, or 95.46 percent of the total population. The population of the Han nationality is 81,217, or 3.7 percent. The population of other minority nationalities is 18,447, constituting only 0.84 percent. [passage omitted]

5. Education Levels

In Tibet, 12,610 people are receiving or have received a college education; 46,590 people, a high school or technical secondary school education; 84,539 people, a junior high school education; and 408,384 people, an elementary school education. [passage omitted]

There are 975,652 illiterates, semi-illiterates, or people who are 15 or under and are unable to read or able to read very little. Compared with the 1982 census, the proportion of illiterates and semi-illiterates in the total population has dropped from 46.12 percent to 44.63 percent.

6. Births and Deaths

The population of Tibetans born between 1 July 1989 and 30 June 1990 is 60,063 people; the population of deceased individuals during the same period is 20,009 people. The birthrate is 27.6 per thousand, and the death rate is 9.2 per thousand. The natural rate of increase is 18.4 per thousand.

7. Total Population in Cities and Towns

The total population in Tibet's cities and towns is 263,792 people, or 12.01 percent of the region's total population. Of this, the total population in cities is 157,377, or 7.17 percent of the region's total population. The total population in towns is 106,415, or 4.85 percent of the region's total population.

8. Population in Different Age Brackets

Tibet has 387,590 preschool children under the age of six, and they constitute 17.56 percent of the region's

total population; the number of school-age children, aged seven to 12, is 305,722, or 13.92 percent; the population of the male labor force, aged 16 to 59, and of the female labor force, aged 16 to 54, is 1,172,411, or 53.39 percent; the number of childbearing women, aged 15 to 49, is 514,314, or 23.42 percent; the population of old people aged over 65 is 101,496, or 4.62 percent. The oldest person is 118 years old.

Yunnan Statistical Bureau Issues Population Data

*HK1311054590 Kunming Yunnan Provincial Service
in Mandarin 1000 GMT 8 Nov 90*

[Excerpt] Today, Yunnan Provincial Statistic Bureau issued Bulletin No. 1 on the main data collected during the 1990 census in our province. The main data contained in the bulletin are as follow:

Total population of the whole province is 36,972,610. Compared with the data issued at 0000 on 1 July 1982 of the third national census, in a period of eight years, population in our province has increased by 4,418,793 (13.57 percent). The average annual increase is 552,349.

Total number of households in the whole province is 7,963,201. The average number of persons in each household is 4.51.

Sex composition: The male population of the whole province is 18,995,951, accounting for 51.38 percent of the total population. The female population is 17,976,659, accounting for 48.62 percent of the total population. The sex ratio between female and male is 100 to 105.67.

Nationality composition: The population of the Han Nationality in the whole province has accounted for 66.61 percent of the total population, whereas the population of various minority nationalities has accounted for 33.39 percent of the total population. Compared with 1982, in a period of eight years, the population of the Han Nationality has increased by 10.77 percent, whereas the population of various nationalities has increased by 19.62 percent. [passage omitted]

Census Reveals Growth in Beijing's Floating Population

*OW1011023790 Beijing XINHUA in English
1648 GMT 9 Nov 90*

[Text] Beijing, November 9 (XINHUA)—The fourth national census revealed that Beijing's floating population has reached 519,000, or 2.9 times more than that in 1982.

According to the census data, Beijing's floating population has increased at an average rate of 18.4 percent per year for the past eight years.

In the past few years, increasing numbers of people from other provinces and cities came to Beijing to work in the city's building, service and commercial industries. Most

of these people live in the outskirts of Beijing. Census results revealed that 296,000 members of the floating population live in the Chaoyang, Fengtai, Haidian and Shijingshan Districts. This number accounts for 57 percent of the total floating population in the city.

There are only 99,000 of the floating population in Beijing's four central urban districts. However, the floating population in these districts has increased at an average rate of 8.6 percent per year for the past eight years.

Family Planning Service Network Formed

*OW1011001990 Beijing XINHUA in English
1458 GMT 9 Nov 90*

[Text] Kunming, November 9 (XINHUA)—China has formed a nationwide family planning service network to help the country's population control drive.

China has invested 557 million yuan to build 2,251 county-level family planning service clinics, XINHUA learned from a recent national meeting on family planning held in Kunming, capital of Yunnan Province.

The main functions of these county-level clinics include making people aware of and understand family planning, birth control techniques and the use of contraceptives, and training family planning workers.

Members of the meeting indicated that the clinics have played an important role in national efforts to control population growth.

For example, some of Heilongjiang Province's clinics, which are now located in 98 percent of its counties and 80 percent of its towns, have sent workers to mountainous areas to give farmers information on the importance of family planning, how to use contraceptives, and other related knowledge.

Beijing's 'Natural' Population Growth Rate Decreases

*OW1011195490 Beijing XINHUA in English
1534 GMT 10 Nov 90*

[Text] Beijing, November 10 (XINHUA)—Beijing has managed to bring its population growth rate under control.

According to the results of the fourth national census, conducted in July this year, a total of 143,906 babies were born and 58,544 persons died between July 1 last year and June 30 this year in Beijing. The birth rate was 13.35 per thousand and the death rate was 5.43 per thousand, making the natural growth rate 7.92 per thousand.

Compared to the third national census in 1982, Beijing's birth rate dropped by 4.2 per thousand, and the death rate decreased 0.4 per thousand. Consequently, the natural growth rate dropped 3.9 per thousand.

TRANSPORTATION

'Key' Highway Projects Completed, Opened

OW0311183990 Beijing XINHUA in English
1437 GMT 3 Nov 90

[Text] Beijing, Nov 3 (XINHUA)—A new highway in north China connecting Linxi County in Inner Mongolia and Pingquan County in Hebei Province has been completed and put into operation.

The [words indistinct] a key project of the current Five-Year Plan (1985-1990), cost 134 million yuan, according to officials from the Ministry of Communications.

The officials also reported that upgrading of the Guangdong section of the inter-provincial Highway No. 107 has also been completed and the entire highway has been opened to traffic. Highway No. 107, starting from Beijing and ending in Shenzhen, Guangdong Province, covers a total of 2,546 kilometers, and the Guangdong section covers 554.4 km.

The Ministry of Communications also disclosed that southwest China's Yunnan Province will build a second-class 139 km highway during the Eighth Five-Year Plan period (1991-1995). The planned highway will begin from Anning County, where it will connect with the first-class highway leading to the provincial capital of Kunming, and end in Chuxiong Prefecture.

Shanghai Shipping Company To Build Containers in Pudong

OW1211091390 Beijing XINHUA in English
0753 GMT 12 Nov 90

[Text] Shanghai, November 12 (XINHUA)—The Shanghai Ocean Shipping Company, China's largest shipping fleet, has set up a company, with five other companies, to jointly produce containers in the newly-developed Pudong Area in Shanghai.

The project, involving companies from Shanghai, Hong Kong and South Korea, covers an area of 50,000 square meters, and requires a total investment of 12 million U.S. dollars. The companies plan to import the world's most advanced container production line.

Upon completion, the production line will be able to produce 2,500 standard international containers a year, of which 90 percent will be for export.

In addition, an official of the shipping company said that the company has signed a letter of intent to jointly market and service telecommunication and navigational instruments and meters with a company from the Netherlands.

It also plans to engage in building ports, berths, storage facilities and ship repair factories.

Country's 'Largest' Shipyard Completed

OW1611092690 Beijing XINHUA in English
0846 GMT 16 Nov 90

[Text] Dalian, November 16 (XINHUA)—China's largest shipyard has been completed in Dalian City, a leading shipbuilding port in northeast China's Liaoning Province.

The Dalian New Shipyard, the only one which is capable of building ships over 100,000 dwt in China, covers an area of one million sq m and has 4,300 employees.

The new shipyard has advanced shipbuilding equipment including the largest hull welding workshop and the most modern refrigeration workshop in China, the only steel plate pretreatment assembly line in China, high-precision cutting machines and a 580-ton gate crane, the largest in the country. It has also an automated system for processing the steel plates.

Since 1984 the Dalian Shipyard has built a 60,000 dwt oil tanker and 115,000 dwt and 118,000 dwt shuttle oil tankers for Norway. It has also exported container ships and offshore drilling platforms to Hong Kong, Pakistan and the United States.

At present the new shipyard is building a 95,000 dwt oil tanker "Wilomi Elrs" for the Anders Wilhelmsen Corporation (AWC) of Norway. It is expected to be completed in early December. Two similar oil tankers are also under construction for AWC.

On the north side of the shipyard the first 200,000 ton slipway in China is being built. It will be completed by the end of 1993, when the shipyard will be the only one in China capable of building 300,000 dwt vessels. In 1994 the annual shipbuilding capacity of the new shipyard will reach over 400,000 dwt, an increase of 100 percent. By the end of the century the annual shipbuilding capacity is expected to reach 800,000 dwt, accounting for 50 percent of the country's total.

Construction of Shandong Capital Airport Begins

OW1611124690 Beijing XINHUA in English
1056 GMT 16 Nov 90

[Text] Jinan, November 16 (XINHUA)—A groundbreaking ceremony was held here today for the construction of a new civil airport in Jinan, capital of Shandong Province in east China.

Located 30 km northeast of the city proper, the airport site is wide open and gives easy access to the Jinan-Qingdao super highway, which is also under construction.

The new airport is expected to serve the western part of the province, covering eight cities and prefectures including Jinan, Zibo, Dezhou, Taian and Jining.

Both medium-sized and large passenger planes can land at the airport, and new flight routes will be opened to

connect all major domestic cities as well as Hong Kong, Japan, South Korea and the Southeast Asian regions.

As a major project of Shandong Province in the next five years, the new airport is expected to play an important role in promoting Jinan's opening to the outside world and the economic growth of the Shandong peninsula.

With a total investment of 230 million yuan, the airport will be made capable of accommodating half a million passengers and handling 23,000 tons of cargo in its first period of construction.

The new airport is expected to be open for use in the first quarter of 1992.

PUBLICATIONS

Folk Code Word Book Published, Trademark Law Course Opens

OW0811125090 Beijing XINHUA in English
1120 GMT 8 Nov 90

[Text] Beijing, November 8 (XINHUA)—Today's cultural news briefs:

More Dunhuang Manuscripts Series To Be Issued

Three more volumes in the series, *Dunhuang Manuscripts in British Collections* will be issued by the Sichuan People's Publishing House at the end of this year.

The first volume of the series was printed at the same publishing house in the middle of October.

The work, which is a 15 volume joint project by Chinese and British scholars, will be completed in three years.

Book Published on Folk Code Words in China

The book entitled *Folk Code Words in China* was published recently by Sanlian Bookshop in Shanghai.

The book was compiled by Qu Yanbin at the Liaoning Provincial Academy of Social Sciences.

Sino-French Course on Trademark Laws Opens

A Sino-French course on trademark laws opened in Guangzhou, capital of south China's Guangdong Province, on Tuesday.

During the course, which was sponsored by the State Administration for Industry and Commerce, French experts on trademark law will be invited as guest speakers.

Trainees representing more than 100 Chinese enterprises will attend the course.

AGRICULTURE

Decline of Shaanxi Sheep-Raising Industry

91CE0099A Beijing ZHONGGUO FANGZHI BAO
in Chinese 18 Oct 90 p 4

[Article by Correspondent Cui Xinzhì (5050 1800 0037): "North Shaanxi Sheep and Goat Raising Industry Faces Danger of Slide"]

[Text] The correspondent learned from Shaanxi farming and animal husbandry departments that the northern Shaanxi sheep and goat raising industry is facing a slump. In Yulin and Yan'an Prefectures, which account for 90 percent of all sheep and goats in inventory in Shaanxi, this is already a foregone conclusion.

Sheep and goats in inventory in 1988 numbered 5.6 million. This included 1.5 million sheep. In 1989, the total in inventory rose to 6.3 million, 1.71 million of them sheep. Output of goat hair was 813 tons, wool 3,523 tons, and cashmere 392 tons. Forecasts call for a decline to approximately 6 million sheep and goats by the end of 1990 (approximately 1.68 million sheep), and a decline in wool, goat hair, and cashmere (but mostly wool) to approximately 3,200 tons. Although the decline is not great, according to expert analysis, a huge decline will occur in 1991. Forecasts call for a great increase in the number of sheep and goats slaughtered during the winter of 1990 and the spring of 1991.

The main reasons for the decline are:

(1) Because the price of wool, goat hair and lamb have declined and feed prices have increased, comparative returns from sheep-raising have declined. Procurement prices of wool and cashmere in northern Shaanxi in 1988 ranged between 10 and 14 yuan, and approximately 300 yuan per kilogram respectively. Today, they have slid to between approximately 5 and 7 yuan, and approximately 160 yuan per kilogram. The price of lamb fell from between 8 and 10 yuan per kilogram in 1988 to between 3.60 and 4.80 yuan per kilogram, about a 40 percent decrease. At the same time, the sale price of corn in Yulin Prefecture rose from 0.56 yuan per kilogram in 1989 to 0.72 yuan per kilogram in 1990, a 38.4 percent rise. This made the raising of fine hair and fine wool animals, whose diet must be supplemented with enriched feed, extremely unprofitable. This "fall on the one side and rise on the other" is, without doubt, a direct cause for the slump in the sheep-raising industry.

(2) The obstructed flow and the clogging of sales channels has meant severe stockpiles of stud animals, wool, and goat hair products. The tight money supply, and market slump have produced "three overstockings" in the sheep-raising industry: First is the overstocking of stud animals. Currently there are 250 stud sheep awaiting sale at the Shenmu and the Dingbian stud sheep farms. This directly affects stud animal operations and improvement of breeds. Second is an overstocking of wool. Both supply and marketing units and foreign trade

units in northern Shaanxi have large amounts of wool in warehouses. Thus, they have been forced to halt further receipts and purchases, and this has meant that herdsmen have a large amount of wool on hand awaiting sale. A survey shows 1,078 tons of goat hair and wool, and 124 tons of cashmere on hand in supply and marketing units in Yulin Prefecture tying up 100 million yuan. Supply and marketing cooperatives in Shenmu County have loans amounting to 17 million yuan for cashmere alone on which they must pay 40,000 yuan in interest daily. They are 1 million yuan behind in payments to herdsmen for cashmere. A survey of 32 herdsmen families showed that 42 percent of the wool and 33 percent of the cashmere produced in 1989 as still awaiting sale. Third is the overstocking of wool products. Just one woolen mill in Yulin Prefecture has 80,000 woolen blankets, 245 tons of cashmere, and 960,000 meters of woolen cloth in inventory worth 40 million yuan.

(3) Support policies have not kept pace, and sufficient reserve strength has not been developed. Shaanxi's sheep-raising industry languishes in a natural state, the province annually investing less than 1 million yuan, which is used to develop and transform reservoirs. In Yulin Prefecture, there is no money to transform more than half the 24 million mu of grasslands, and hay yields have declined from the former 185 kilograms per mu to 80 kilograms per mu, a 40 percent decrease. The Shenmu and Dingbian stud farms report that because the state supplies insufficient fixed price fodder, they have to buy negotiated price fodder. In addition, production costs such as medical treatment expenses, keep rising, so stud animals are raised at a loss, the farms losing 44 yuan on every stud animal that leaves the farm. After instituting fiscal contracts, grassroots veterinary stations everywhere were short of operating expenses, and scientific and technical personnel were unable to carry out epidemic prevention and disease treatment as required. As a result contagious diseases like sheep mange and sheep pox, which had been controlled or even wiped out, reappeared in some areas. Buildings at 22 of 30 veterinary medicine stations in Dingbian County are verging on collapse, and 23 stations lack money to buy new epidemic prevention medicines, four of them being forced to close for lack of medicine. Half of 156 grassroots veterinary medicine scientific and technical personnel throughout the province are able to draw only one-third their wages, and 17 percent have been forced to leave the profession.

The foregoing circumstances pose a serious threat to the already hard pressed sheep-raising industry. In Yulin Prefecture, 113 of the 286 supply and marketing cooperatives dealing in cashmere are operating at a loss, their losses amounting to 10.5 million yuan. Households engaged in raising sheep generally report inability to withstand the onslaught of decline in returns, and they are not planning to enlarge their herds. They have also greatly reduced care of animals on hand, cutting fodder supplements or even not treating disease. This has

resulted in scrawny sheep and goat herds in quite a few places, which makes them extremely prone to miscarriages. This will directly effect the normal replenishment of sheep and goat inventories in 1991.

Differing Views on Increasing Agricultural Investment Summarized

91CE0100A Beijing ZHONGGUO NONGCUN JINGJI
[CHINESE RURAL ECONOMY] in Chinese
No 10, 20 Oct 90 pp 57-61

[Article by Sun Shengli (1327 0524 0446), Ministry of Finance, Financial Science Institute: "Roundup of Discussions About the Agricultural investment Problem"]

[Text] Insufficient investment in agriculture is an extremely conspicuous problem today that has aroused widespread serious attention. Discussions of this problem among economic theoreticians are summarized below.

I. Manifestation of Insufficient Agricultural Investment

A. *Gradual Decrease in Government Financial Investment in Agriculture.* Relevant statistical data show a decrease from 69.341 billion to 65.848 billion yuan in government expenditures for agriculture between the Fifth Five-Year Plan and the Sixth 5-Year Plan. Government expenditures for the support of agriculture as a percentage of all government financial expenditures fell from 13.7 percent in 1979 to 7.9 percent in 1987; government investment in agricultural capital construction as a percentage of all government investment in capital construction fell from the 10.5 percent of the Fifth Five-Year Plan period to five percent during the Sixth Five-Year Plan; and investment in industries providing materials to agriculture declined by 5.697 billion yuan between the Fifth Five-Year Plan and the Sixth Five-Year Plan.¹

B. *Outflow of Agricultural Credit Funds, the Scale of Credit Lagging Behind the Speed of Development of Agricultural Production.* Since reform, agricultural credit as a percentage of total bank and credit cooperative credit has hovered around seven percent. The outflow of agricultural credit funds during the Sixth Five-Year Plan period was 12 percentage points higher than during the Fifth Five-Year Plan period. The role played by agricultural credit funds in agricultural production gradually declined. During the Second Five-Year Plan, 47 percent of funds paid for the purchase of agricultural means of production derived from agricultural credit, but by the Sixth Five-Year Plan, the figure was approximately one-third.²

C. *Serious Short-Term Attitude Toward Investment in Agriculture.* First of all, peasant households' use of funds for consumption increased too abruptly causing a decline in the percentage of funds available for production. Second, peasant households tended to invest in nonagricultural purposes. The original value of fixed assets used in agriculture as a percentage of the original

value of all fixed assets of a productive nature fell from 65.7 percent in 1983 to 53.1 percent in 1988. In 1988 there were 125,000 more large and medium size tractors and 4,084 million more small tractors than in 1980, but the machine-plowed area was 76,000 hectares less.³

D. Steady Decline in Collectives Investment in Agriculture; Sharp Decline in Township and Town Enterprise Funds Used to Support Agriculture Between 1982 and 1988, rural collectives' investment in fixed assets used in agriculture declined from 5.232 billion to 4.29 billion yuan. Investment in fixed assets used in agriculture as a percentage of total collective investment in fixed assets fell from 39.6 percent in 1982 to 9.4 percent in 1988. In 1979, township and town enterprises nationwide spent 4.19 billion yuan on the support of agriculture, the amount spent for this purpose declining to 1.16 billion yuan in 1988. From 1979 to 1983, township and town enterprises spent 16.5 billion yuan on agriculture, but from 1984 to 1988, they spent only 7.7 billion yuan.⁴

II. Reasons for the Insufficient Investment in Agriculture

Government Financial Investment in Agriculture

Some comrades suppose the reasons for insufficient government investment in agriculture are: 1. An inconsistent industrial policy causing an irrational direction of investment flow; 2. changes in subsidies of the agricultural means of production and in central government policies regarding tax reductions and exemptions, occasioning a year-by-year decline of accumulations within agriculture; 3. peasant preoccupation with improving their material standard of living instead of investing in fixed assets; and 4. the family contract responsibility system has lost funds and returns formerly obtained from farming on a larger scale, occasioning a disjunction between investment of funds and returns on funds.⁵

Another view holds the reasons for insufficient government investment in agriculture are: One reason was a tremendous rise in peasant income and abnormal growth of agriculture up to 1984, which caused government to overestimate both peasant ability to accumulate funds for investment and agricultural development. In addition was government financial difficulties, and a shortage of funds for key construction projects, which caused governments at all levels to reduce their investment in agriculture. Second, under relentless pressure to multiply output value, local government and extra-budgetary funds investment tilted quite naturally toward secondary and tertiary industries, and toward cities.⁶

Some comrades maintain that the system of dividing revenues and expenditures between the central and local governments and holding each responsible for balancing their own budget is an important reason contributing to the decline in agricultural investment. In recent years, extra-budgetary funds have increased too abruptly, and local financial strength has grown rapidly making it difficult for the state to exercise macroeconomic control

over investment behavior. Because of the local government tilt toward investment in industry, the central government treasury has showed a deficit year after year, making a large increase in investment in agriculture impossible. This created the situation of insufficient government investment in agriculture.⁷

Other comrades maintain the reasons for insufficient government investment in agriculture are: 1. Government expenditures for agriculture are not in keeping with either the degree of reliance of the entire national economy on agriculture or the tremendous increase in government expenditures. 2. Government investment in agriculture is largely through increases in financial subsidies and through tax reductions and exemptions for the purpose of stirring peasant enthusiasm for production. Such methods can hardly be effective under present circumstances. 3. The use of government funds for the support of agriculture is not under centralized agency control making attainment of full effect difficult.⁸

Investment of Agricultural Loans

The first point of view holds that agricultural loan interest rates are too low, and that operating banks like enterprises adversely affects the investment of loan funds in agriculture. The state's "arbitrary uniformity" in controlling specialized banks makes for difficulties in arousing the interest of the Bank of Agriculture and credit cooperatives in supporting agricultural production. In addition, because of the soft restraints of agricultural loan investment plans and the higher returns available from investment elsewhere, inevitably funds are invested in industry and commerce where they can earn high interest rates.⁹

The second point of view holds that operating specialized banks like enterprises and the tightening of credit are a major reason for the reduction of investment in agriculture. The operation of the Bank of Agriculture like an enterprises impedes future increases in its investment, and this shows up in a diversification of its operating objectives. Currently the Bank of Agriculture is not shouldering responsibility for controlling and regulating the macroeconomy and finances. Unavoidably this will cause regular conflicts between policy objectives and interest goals within the same financial enterprises, thereby impairing investment in agriculture.¹⁰

The third point of view maintains that there are numerous reasons for the decline in agricultural loan investment. High agricultural product production costs, but state procurement of these products at overly low prices, which hurts peasant interest in investing; too small-scale farming, which limits loan investment in agriculture; a short-term peasant mentality regarding farming, which impairs increase in financial investment in agriculture; a weak rural collective economy, an unsound "two-tier" administrative system, and lack of an economic entity for sustaining investment in agriculture; and lack of national preferential policies toward the

Bank of Agriculture and credit cooperatives, which hurts bank and credit cooperative support for agriculture.¹¹

Peasant Household Investment

One point of view maintains that the main reasons affecting peasant household increased investment in agriculture are: First is the effect of small-scale farming economic thinking; second is the relatively low comparative returns from agricultural products; and third is an external environment that leaves much to be desired. First is the problem of agricultural by-products sales and the supply of materials needed in agriculture, and second is the two-tier administration problem. Since the collective economy has insufficient economic strength, production cooperatives at low levels in most places are unable to develop. This impairs peasant households' confidence about increasing investment in agriculture.¹²

Another point of view maintains that the not very high peasant interest in investing in agriculture is a general manifestation of the overlapping role of political, economic, and psychological factors at the present stage, which boils down to macroeconomic policies about rural economic work run contrary to the laws of value. The reasons for this are: first, the lack of a sound rural grassroots organization and market mechanism; second, the failure to establish a collective financial mechanism that is in keeping with the scattered nature of the peasant earners; and third is policy mistakes and continuing to take the old road of exploiting the peasants.¹³

Collective Investment

One virtually unanimous view of the reason for the reduction in collective investment is that following the establishment of the family contract responsibility system, the rural collective economy has been dead in all but name. The collective economy has become an empty shell. It is powerless to increase investment in agriculture. Even in places where the collective economy is in relatively good shape, the agricultural investment problem has not aroused sufficient attention. Consequently collectives have invested less and less in agriculture.¹⁴

When an analysis was made of reasons for the insufficient investment in agriculture, some comrades also maintained that the insufficient investment in agriculture results from the existence of a series of mechanisms that hold down investment. One is the lack of a clear-cut division of labor for investment. A second is the lack of a coordinated investment climate. A third is lack of vigorous investment regulation and control. There is a constant divergence between the large-scale ballooning of extra-budgetary investment and the relatively shriveled investment from within budget. Within budget, investment income falls short of expenditure making allocations to agriculture difficult. Extra-budgetary investment, except for the portion under central government macroeconomic regulation and control, can be even less easily allocated to agriculture.¹⁵

Yet another point of view holds that deep-down reasons for the lack of agricultural investment are: 1. In effecting a real increase, empty slogans substitute for real government investment in agriculture. 2. In management of available investment, authority and responsibility are at odds with each other. 3. In the movement of flow, outflow offsets recovery. There is "centripetal flow," meaning the flow of agricultural funds toward cities; a second is "gradient flow," meaning the movement of funds to the southeastern coastal regions; and a third is "flow out of the fields," meaning that agricultural funds go into industry and commerce, or the peasants use loans for ill-advised financing that takes funds away from agriculture, or comparative returns from agriculture are relatively low, so agricultural funds flow into industries other than agriculture.¹⁶

Remedies to Increase Agricultural Investment

Remedy 1: (1) Readjustment of the division of labor in agricultural investment, and improving investor behavior. (2) Perfection of the investment climate to stimulate interest in investment. The percentage of growth and the percentage of investment for industry and agriculture must be well coordinated; economic parameters must be coordinated, and the orientation of benefits must be rectified; and various rural reform policies must remain consistent. (3) Improvement of macroeconomic regulation and control, and coordination of investment procedures.¹⁷

Remedy 2: (1) Formulation of an equitable agricultural products procurement price policy. The agricultural product procurement price index has to be directly linked to the price index for rural industrial wares, particularly the means of production used in agriculture. When calculating the rate of increase in prices of agricultural means of production, the price rise index of rural country fair trade has to be included, the actual amount purchased from the peasants used as a weighted figure to produce weighted calculations. (2) Full use of the guiding role of state, local, and credit funds, and investment from outside the country to channel increased investment in agriculture by cooperative economy organizations and peasant households. (3) Active financing, using funds from within economic organizations to build a new agricultural investment mechanism.¹⁸

Remedy 3: (1) Establishment of an agricultural development fund. The money for such a fund can come from tax receipts from township and town enterprises, from taxes paid for takeovers of cultivated land, from tax receipts from rural individual households and privately-run enterprises, from taxes on specialty farm and forestry products, and from extra-budgetary funds. (2) A certain percentage of funds may be apportioned from various contracting fees paid to collectives for services they provide to all for investment in agriculture. (3) Township and town finance departments may withhold a suitable portion of extra-budgetary funds and current year surplus funds for investment in agriculture. (4)

Township and town enterprise may establish a fund system for the support of agriculture that is responsible for collecting, managing and using the aforementioned investment funds.

Remedy 4. (1) Contraction of the scale of investment in capital construction for a readjustment of the orientation of government investment. Attainment of between nine and 13 percent growth of processing and manufacturing industries permits a three to five percent growth of agriculture for the maintenance of a roughly three to one speed of growth. (2) More investment in the capital construction of agriculture and the development of science and technology, and standardizing the operation of the agricultural financial investment policy making structure. (3) Building of a national government financial subsidy system for agricultural production. Adoption of subsidies for some agricultural funds; offering preferential interest rates on agricultural loans, the state providing government discounting. (4) Formulation of a government financial policy of "having agriculture build up agriculture."¹⁹

Remedy 5. (1) Complete the building of the land system to encourage peasant households' enthusiasm for farming. (2) Establishment of a standard system for government finance, credit, and tax support for agriculture: a) Institute a five-tier central government, provincial, prefecture (or city), county, and township government-set incremental financial increase investment system; b) change the present agriculture tax to a land use tax, levying a peasant household products tax and a family income tax; c) government financial departments at all levels should enforce protective subsidies for agriculture products from which price restrictions have been removed such as meat, eggs, and vegetables. (3) Reform the procurement, marketing, and price systems to foster rural markets.²⁰

Main Investors in Agriculture

The first point of view holds that it is necessary to the position of the Bank of Agriculture as the main investor. Since the Bank of Agriculture is the overall unit for rural funds dealings, and is the main investor in agriculture, it can better reflect the intentions of the state for the development of agriculture, and give impetus to readjustments of the industrial structure. In addition, it can help with unified planning, the conservation of funds, and good use of funds. Therefore, all funds having to do with agriculture must be centrally apportioned to projects by the Bank of Agriculture, and their use monitored item by item. Funds put up by townships and villages must likewise be deposited in either the Bank of Agriculture or a credit cooperative for payment as circumstances require. Peasant households will have to deposit a certain amount of production funds as the scale of production permits for use when needed.²¹

The second point of view maintains that it is necessary to adhere to the principle of state assistance being ancillary, the peasants' own accumulations being primary. The

peasants are the main investors in agriculture. This is the basic line of thinking and policy for future investment in agriculture, and accumulation strategy. This is because international experience shows that state investment in agriculture is usually limited only to projects of a conservation and development nature, and for the construction of basic facilities. Funds for ordinary production, accumulations for rural fixed assets, and for improved returns from production must come from the peasants and from the investment of rural collectives themselves. Since the founding of the PRC, the raising of funds for agriculture has come primarily from accumulations within rural villages.²²

The third point of view holds that a policy of "equal emphasis on the state and local governments, and collectives and individuals in common" should be carried out with regard to the main investors in agriculture. Peasant households are just one important group among numerous main investors. Collectives are an important body among main investors in agriculture; they are intermediate links between the national and local governments and the peasants. Consequently, emphasis cannot be placed on just one main investor to the neglect of other main investors. It is necessary both to overcome the past mentality of "emphasizing agriculture while slighting agriculture, and emphasizing cities while slighting the countryside," and to overcome the dependent psychology of "the state provides the money while the peasants till the fields."²³

Different Ideas For Reform of the Agricultural Investment System

Idea 1: The most basic way to increase investment in agriculture is to get rid of the different kinds of agricultural funds, and to set up a diversified agricultural investment system that corresponds to the new economic structure. This can be done only by establishing a multi-level all-points agricultural investment system in which the state plays a dominant guiding role, local governments and the collective economy are principals, the peasants are the foundation, credit funds provide support, and that departments at all levels supplement as the only effective way in which to increase investment in agriculture. The main components of a diversified agricultural investment structure are as follows: 1) restoration of state investment in agriculture; 2) regularize local government investment behavior; 3) toughen the centralized operating level accumulation mechanism to enhance collectives sense of being the principal investors in agriculture; 4) optimize peasant investment behavior; 5) straighten out credit relationships to improve agricultural credit support; 6) encourage all society to invest in agriculture to improve the interrelationship between departments and the development of agriculture.²⁴

Idea 2: An energy-charged, multi-level agricultural investment mechanism in which there are dominant and subordinate players, each responsible for particular functions, must be built to meet objective needs in the development of a rural commodity economy. Such a new

investment mechanism should include the following five kinds of investors and attendant goal support. First is state financial investment and its support of the investment needs of key projects. Second is bank and credit cooperative credit funds and their supplementary role in providing short-term funds for agriculture as well as some intermediate and long-range funds. Third is the introduction of foreign capital and its regulatory role with regard to the shortage of agricultural funds in China. Fourth is peasant household family accumulations and their supporting role in providing short-term working capital and fixed assets for agriculture. Fifth is the accumulations of townships and villages, and their supporting role in the building of coordinated pre-production and post-production facilities for agriculture. The advantages of such a mechanism are: It avoids the fragmentation of investment caused by the lack of division of functions among principal investors, providing an investment mechanism and attendant facilities for investment at all levels that the development of agriculture needs, as well as providing funds support.²⁵

Idea 3: The key remedies in reform of the agricultural investment system lie in the following: From the macro-economic angle, the state share of investment in agriculture must be increased. From the microeconomic angle, the peasant household investment climate has to be perfected and improved. The point of departure for these two key remedies is optimum policies to bring forth a new system. First is creation of a new land system. This entails commercialization of existing land use rights. Second is creation of a new price system, which entails the removal of restrictions on agricultural product prices. Third, the emphasis of the investment structure has to be transferred back to agriculture, and transferred to invisible investment and invisible accumulations. Fourth is revamping of the organization. This means optimization of the local government organizational structure and behavioral functions to make local investors take more initiative in accumulating and investing. There should be better collective cooperation to enhance the functioning of the economic community.²⁶

Idea 4: The choice of a new agricultural investment mechanism should be primarily the local government for short-term investment in agriculture, the central government playing a supplementary role. The investment capabilities of peasant households should be gradually built up to shape an investment pattern in which there are multiple investors at multiple levels, peasant households playing the dominant role. Collectives, in their role as the primary investment level in the community, should mostly provide various services for family farming. The configuration and specific actions to be taken by the new agricultural investment mechanism include the following: (1) The central government: a) Adoption of a coordinated development strategy for industry and agriculture; b) Setting of an investment policy tilted in favor of agriculture for readjustment of the investment structure; c) adoption of consistent agricultural investment policies; d) adoption of a combination of compensation and no compensation methods for

the use of funds for the support of agriculture. (2) The local government: a) amassing of funds for agriculture; b) setting the orientation of investment in agriculture. (3) Peasant households: a) perfection of the farming system; b) readjustment of agricultural product prices and straightening out of investment benefit relationships; c) improve peasant household investment capabilities.²⁷

Idea 5: The overall principle for the establishment of a new agricultural investment mechanism is as follows: Gradual national government increase in agricultural investment to spark investment by the peasants themselves, the emphasis being on establishment of a self-balancing, self-developing microeconomic accumulation system. Most important should be the associated and coherent establishment and perfection of four different mechanisms, namely the establishment and perfection of a microeconomic accumulation and financing mechanism; a government financial credit regulation mechanism; an economic compensatory reserve insurance mechanism, and an agricultural investment control and supervisory mechanism.²⁸

Footnotes

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- Two-Way Contract Responsibility Systems Hailed in Rural Reform**
91CE0098A Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 43, 22 Oct 90 p 1
- [Article: "New Ways of Deepening Rural Reform in China"]
- [Excerpt] [Passage omitted]
- After 1985 China's grain production was at a standstill, dragging down national economic growth and causing anxiety. In 1989 grain output reached its highest level since 1984; in 1990 it broke another new record. After trying various approaches to reforming China's rural economic system over the past several years, new experiences have been accumulated.
- Since 1987 China has achieved great successes in reforming the rural economic system. The universal implementation of the output-related contract responsibility system caused miraculous changes in China's agricultural production. Numerous problems still remain in the development process, however. Decentralized operations by individual families and households frequently confront difficulties that they cannot easily overcome. Consequently, the peasants have to run hither and thither in a difficult search for solutions. As a result of

arduous efforts in recent years, many places have set up various kinds of collective service organizations to resolve matters that individual families and households were unable to handle. These social service systems arranged contracts with peasants who wanted services and provided peasants services at low prices, the peasants being responsible only for day-to-day field care. This was called "household-by-household farming with centralized services," and it resulted in countless households joining together to form an agricultural production community. In Shandong, Anhui, Shanxi, and Hebei Provinces, peasant households greatly welcomed it.

The two-way agricultural contract responsibility system that Henan instituted was yet another beneficial experiment in the deepening of rural reform. For more than 10 years, the state and collectives demanded much of the peasants, but gave them little in return. Even what was owed to the peasants was frequently not honored. Therefore, peasants were resentful. Ever since the peasants gained the right to decide what they would produce, the state's macroeconomic regulation and control over farming has become weak and ineffective. Sometimes it is difficult to get the peasants to accept the state plan. However, the two-way contract responsibility system that Henan Province worked out creates an effective way to solve this very problem. It gives expression to economic equality and mutual benefit among the state, collectives, and individuals. Once a two-way responsibility agreement or contract is signed, it has the force of law. Gone is the former situation of "harshness in taking from the peasants, softness in giving to the peasants," and the "unilateral contracts" that the peasants termed "requisition procurement notices," or "unequal treaties." Now, by the terms of the two-way contract responsibility system, the government and its functioning bodies have to bear the responsibilities set forth in the contracts, including providing machine plowing, sowing, plant protection and water conservancy services. It also includes supplying of chemical fertilizers, pesticides, plastic mulch, electric power for agriculture, diesel fuel, and for the organization and control of agricultural production, plan guidance, and financing services, all of which are services that peasants need. Peasant households and collectives also have responsibilities. Standards are now set for the former "family linked production," which had degenerated a great deal. Norms are now drawn up for replenishing soil fertility where formerly no one looked into how peasant households farmed the land. All who fail to fulfill contract terms, whether the government or the peasants, are to be punished. As a result, the agricultural administration

and management campaign has begun to operate in an orderly fashion rather than in the former disorderly way.

In some parts of Henan where this two-way contact responsibility system has been extended, it has proved to be a truly beneficial experiment in rural economic reform within only slightly more than two years, and it has also provided scientific data for leaders' decisions. In recent years, quite a few places throughout China, which proceeded with the courageous exploration of paths for rural reform, have accumulated successful experiences with this system. This betokens a bright future for China's rural reform. People have built this road, and the road of reform can only become wider.

As to what road China's rural reform will take, it will probably proceed along the following three lines:

There will be continued stabilization and perfection of the family contract responsibility system. Perfection means that appropriate readjustments will be made in the inequitable parts of the existing system after gaining the concurrence of the masses. For example, in some places where there are numerous employment opportunities, there is not that much enthusiasm for the contracting of land as it now stands. Therefore, fields for the growing of personal grain rations may be separated from responsibility fields, no changes made in the personal grain ration fields, but the responsibility fields being relatively concentrated and intensively farmed.

Second, socialized services will develop vigorously. This will be a main emphasis and direction for the future deepening of rural reform. A combination of socialized services and family output-related contracting will be able to make the most of advantages while avoiding disadvantages. It can make use of the advantages of the collective economy and also ensure enthusiasm for family farming. Work that should be centralized will be centralized by collectives, and work that should be decentralized will become the responsibility of families in the formation of a two-tier farming mechanism that combines centralization with decentralization. This will emancipate productivity. The State Council has decided to begin with the investigation and summary of existing experiences to standardize a successful socialized services model, and to propose preferential policies that support the development of rural services to produce a guidance document or regulations. Forecasts call for results of the study to come out by the end of 1990 or in early 1991.

Finally, where conditions permit, farming on a proper scale should be done with the voluntary participation of the masses.

[passage omitted]

Hebei Grain Procurement*40060009D Shijiazhuang HEBEI RIBAO in Chinese
29 Oct 90 p 1*

[Summary] As of 22 October, Hebei Province had procured 59,213,000 kilograms of grain.

Sichuan Works To Solve Rural Employment Problem*HK2211030190 Beijing JINGJI RIBAO in Chinese
30 Oct 90 p 1*

[Report by Chen Jiyang (7115 7139 7122): "Sichuan Makes Overall Plan To Solve the Problems of Employment in Rural Areas"]

[Text] In China, the peasants make up 80 percent of the social labor force. But for a considerably long time, insufficient attention has been paid to the problem concerning their employment and development. Now, this 40-year-old phenomenon is over in Sichuan Province. To change the situation, this province has established a number of labor management organizations at various levels over the past four years, which are carrying out overall management of urban and rural labor forces. As a result, the agricultural labor forces throughout the province have been shifting healthily and in good order.

Being a province with a big population, Sichuan has been faced with sharp employment contradictions. In the whole province, more than 10 million rural laborers were demanding to be shifted to other production. In view of this situation, the Sichuan provincial party committee and provincial government regarded the shifting of rural laborers as an important strategic measure for rejuvenating the provincial economy. Beginning in 1986, a number of social labor force management organizations were set up at the provincial, prefectural (city), and county levels so as to carry out overall management of both urban and rural labor forces. They were the first in our country to bring the exploitation of rural labor forces into the sphere of labor management.

On the question of shifting rural labor forces, the province has stressed implementing policies and plans and offering concrete guidance and service in this work. This is a principle they have always upheld in rural labor forces management work. Under the guidance of this principle and through their efforts over the past four years, the province has basically found a path for carrying out planning and training before the shifting of the surplus labor in rural areas, offering guidance and carrying out regulation and control in the course of shifting, and carrying out follow-through management after it.

In 1987, Sichuan Province began to place the shifting of agricultural labor forces in the annual economic plan. At

the same time, various localities also carried out investigations of the rural labor resources. According to the results of the investigations, they worked out a strategic plan for exploiting and employing rural laborers. At present, more than 20 counties and cities of this province have basically found out about the labor situation in the rural areas. Guanghan and other counties and cities have worked out plans for shifting rural labor within this century.

In light of the needs of the shifting, special training has been offered to rural laborers before employment. At present, the province has set up a network of vocational education and technology training for rural laborers, formed by the county-level vocational training centers and employment training centers, the vocational training classes in townships and towns, and some social educational organs.

In the past year or so, Sichuan Province has also made certain explorations on rationally regulating and controlling the quantity, speed, and direction of the shifting of rural labor forces so that the peasants may not go to work in other areas blindly. The labor management departments have actively contacted some employing units of other provinces and collected all kinds of employment information from them. Then they made them known to the peasants promptly through the labor markets in the province. On the other hand, they also accepted some labor export projects and carried out direct regulation and control over the rural labor forces. At present, about 40 percent of the export labor has been brought into line with the project of enabling labor forces to flow in an organized manner and in a planned way.

Sichuan also pays attention to the follow-through management of the export labor. Every year, the social labor management departments at various levels send their personnel to the areas where there are more laborers from Sichuan to assist the employing units in doing ideological and political work and solving the problems appearing among the laborers.

Yunnan Tea Exports*40060009E Kunming YUNNAN RIBAO
in Chinese 1 Nov 90 p 1*

[Summary] From January to September, Yunnan Province exported over 6,000 tons of tea, exports of black tea increased more than 30 percent over the same period in 1989.

Anhui Vegetable Area*40060009C Hefei ANHUI RIBAO in Chinese
2 Nov 90 p 2*

[Summary] The winter vegetable area in Anhui Province is 1,850,000 mu and estimated gross output is 4,200,000 tons, increases of 3.2 percent and 5.1 percent respectively over 1989.

Bumper Grain Harvest To Benefit Pork Production

*HK1711022690 Beijing CHINA DAILY
in English 17 Nov 90 p 3*

[By staff reporter Wang Dongtai]

[Text] Pork production in China is expected to be helped by this year's bumper grain harvest as farmers saw benefits in raising pigs, said officials from the Ministry of Agriculture.

Prices of feed fell and the purchasing price of pigs rose. Officials predict a steady development in pig production.

A survey to 20 provinces, autonomous regions and municipalities showed that in the first three quarters of this year, the number of pigs sold by farmers increased by 11.71 percent compared with the same period of last year.

Farmers have been selling more pigs because the purchasing price rose. In Hubei in September for example, the average market price was 3.58 yuan per kilogram, an increase of 12.6 percent.

In Hebei Province, the purchasing price in the third quarter of the year was 3.59 yuan per kilogram, an increase of 3.5 percent compared with the same period of last year.

Nationwide, the average purchasing price for pigs was 3.53 yuan per kilogram in the third quarter of the year, an increase of 9.3 percent compared with the second quarter of the year.

Feed

At the same time, prices of feed decreased. In Hunan Province for example, the price of wheat bran was 34 yuan per 50 kilograms, a decrease of 8.1 percent compared with the same period of last year. The price of bean cake was 67 yuan per 50 kilograms, a decrease of 3.6 percent.

Agriculture officials predicted that the annual government quota for pork production will be fulfilled by the end of the year.

Production of cattle has also increased. The number of cattle sold by farmers increased by 46.35 percent and beef by 49.67 percent. Output of milk increased 2.14 percent compared with the same period of last year.

Production of sheep increased by 25.3 percent compared with the same period of last year and output of mutton increased by 20.63 percent.

The survey found the average income of farmers increased by 0.8 percent compared with the same period of last year.

Liaoning Benefits From Spark Plan Projects

*SK2311065390 Shenyang Liaoning Provincial Service
in Mandarin 1030 GMT 22 Nov 90*

[Excerpt] During the Seventh Five-Year Plan period, the implementation of the spark plan has brought about marked economic and social efficiency to the countryside of the province. During these five years, the province has arranged for 697 spark plan projects of the state, provincial, and city levels, made a total investment of 370 million yuan in these projects, realized a total of 1.329 billion yuan in output value and 360 million yuan in profits and taxes, and created and saved a total of \$66.91 million in foreign exchange. The ratio between input and output is 1 to 3.6.

The implementation of the spark plan has also promoted the development of the province's rural regional pillar industries, service systems, and trans-regional production groups. [passage omitted]

Jilin Livestock Production Increases

*SK2411053090 Changchun Jilin Provincial Service
in Mandarin 2200 GMT 23 Nov 90*

[Summary] Our province livestock production soars this year. As of the end of the third quarter of this year, the province had 8.238 million head of hogs, 2.841 million head of sheep, and 96.969 million head of cattle, showing increases over the corresponding period last year.

Cloud Seeding Aids Winter Wheat Sowing in Henan

*OW2311165890 Beijing XINHUA in English
1033 GMT 23 Nov 90*

[Text] Zhengzhou, November 23 (XINHUA)—Central China's Henan Province, which was affected seriously by drought early this winter, had sown a total of 4.84 million ha of winter wheat by November 13, thanks to cloud seeding efforts.

The Air Force of the People's Liberation Army dropped a total of 2,800 kg of dry ice over 70,000 sq km, producing sufficient rainfall for the sowing season.

The province, a major wheat producer, has harvested a total of 16.66 billion kg of wheat this year.

Gambling Runs Rampant

91CM0017A Beijing JINGJI RIBAO in Chinese
8 Sep 90 p 2

[Article by Shao Daosheng (6730 6670 3932): "The 'Wave of Gambling' Must Be Stopped"]

[Excerpt]

I

In the last several years, the gambling phenomenon has developed to the point that people can no longer tolerate it. This is by no means alarmist talk. The seriousness of this phenomenon can be seen in the several aspects listed below.

First, the rate at which gambling cases are increasing is accelerating. According to relevant statistics, and taking the number of gambling cases uncovered in 1986 as the base, in 1987 gambling cases increased by 24.4 percent compared to 1986, in 1988 they increased 24.8 percent compared to 1987, and in the first two months of 1989 they increased 48 percent compared to the same period in 1988. In 1988, throughout China more than 900,000 people were punished for gambling. This represents only the number of those tracked down. In reality the situation is certainly much more serious than this.

Second, there is a wide range of people participating in gambling. If we say that in the past those participating in gambling were from relatively low levels of society, then at present the situation is very different: 1) It is not restricted to any specific region, as there are people in cities, villages, and mountainous regions who gamble. 2) There are no age or sex restrictions, as males and females, young and old all take part in gambling. 3) It is not restricted to certain professions, as there are workers, peasants, soldiers, students, businessmen, and even cadres in party and government organizations who gamble. 4) It is not restricted by educational level, as there are illiterate and semiliterate people, middle-school and primary school students, and university students who gamble.

Third, there is a public nature to gambling. One can see people gambling publicly, whether it is a pair, a group of three, four at a table, or a crowd of five, and no matter whether it is at home, on a street corner, in a park or other public place, or on transportation lines such as the train, highway, or airplane. In the villages, on New Year's Day or other festivals, gambling is the most commonly seen form of diversion.

Fourth, there are diverse types of gambling. If in the past gambling paraphernalia was somewhat limited, then currently the types of gambling and gambling paraphernalia are multifarious, from the very "local" and the very "foreign" to "local-foreign combinations," from the most simple to the most complex, and from those who gamble purely for fun to those whose only pleasure is gambling.

Fifth, there is a trend towards professionalization of gambling. In the wake of the recent development in

gambling activities, a sizable number of "specialized households" which make gambling a vocation have emerged. There has also been an emergence of what are commonly called gambling gangs or criminal gambling cliques, which constitute an evil force of moderate size in society.

Finally, it should be pointed out that the stakes in gambling have been getting larger, which is a clear characteristic of the gambling phenomenon of recent years. In some open areas along the coast, because some individual upstarts, businessmen, and proprietors of private enterprises are joining the army of gamblers, it is not uncommon to see gambling stakes of a thousand or 10,000 yuan.

It is evident from the recent characteristics of gambling described above that the development of gambling as an abnormal social phenomenon is quite serious and shocking.

II

The media has already discussed at length the harmful nature of gambling, but it is not very clear whether this has been effective. I believe that, first of all, it is necessary to clarify the psychological state of gamblers. Only in this way can we be effective. Recently, a young worker studying "the reasons young people gamble" did a investigative survey of 114 young people who gambled. The results were as follows: 71.1 percent got into mischief because of the idea that they could "reap without sowing"; 49.1 percent were bored with life and were seeking stimulation; 48.2 percent had lost confidence in the future; 41.2 percent associated with friends who gambled; 27.2 percent were looking for entertainment and diversion; 9.6 percent had a low educational level; 7.9 percent were needy; 2.6 percent were rich; and 6.1 percent cited other factors for gambling. Of these, the following psychological factors associated with gambling should be given the most attention:

A psychology with an insatiable thirst for taking chances. Recently, under the influence of the wave of money worshiping, many people have developed an abnormal social psychology colored with an "eagerness for instant success and overnight riches." In addition, under the guidance of high consumption, which is an abnormal social phenomenon, people's evil lust for money has expanded, and when an individual's income cannot satisfy an abnormal desire to consume, the risky method of gambling quite often becomes the best way for the person to satisfy his irrational lust. This type of insatiable psychology is reflected in the statement, "Being a second- or third-grade worker is not as good as gambling for a few minutes."

A psychology that searches for stimulation. Some people have a quite abundant physical life, but find that their spiritual life is lacking and hollow. Gambling is a diversion that can stir people's primitive emotions and is very stimulating. After winning, the successful person can display uninhibited joy and excitement, and can on the

one hand become intoxicated with self-satisfaction, and on the other hand become inexplicably self-worshipping. After losing, the loser can bemoan his bad luck, be upset, and regret losing his easy money. The impetus of trusting to luck, recovering, and returning to a "break even" situation can strengthen one's gambling behavior.

A psychology that seeks entertainment and diversion. Many people who begin gambling do so to a great extent because of curiosity or because they want to join in the fun. Later, this goes from an occasional "amusement" to frequent participation. At this point, participants themselves can recognize that "big gambling starts from petty gambling," although there are always those with a "self-forgiving" mentality. This "self-forgiveness" always starts with a person separating himself from the normal laws, and it is a matter of self-protection and self-consolation. Hence, the ultimate outcome is for the most part far from mental entertainment and diversion, and it reaches an unmanageable level.

An unquenchable thirst and a quest for stimulation and diversion are the three main psychological motives for becoming initially involved in gambling. In addition to the psychological factors described above, there are still deeper social causes for the rampant spread of gambling. First, one common social state of mind is that people have a "tolerant" attitude towards gambling. Many people believe that "winning or losing is an individual matter, and cannot negatively affect society." The first explanation for this tolerant attitude is that people are extremely indifferent to the concept that gambling is

illegal. The second explanation is that gambling has a certain "base among the masses." Generally speaking, after a particular type of social behavior becomes a part of the lives of part of the citizenry, it is very difficult to eliminate it. Second, social controls lack sufficient force. This is reflected by the fact that laws are not complied with or strictly enforced. According to the relevant stipulations of China's Public Security's administration regulations and the "Penal Code," it cannot be said that the punishments for gambling are not severe. In reality, however, because police power is insufficient, gambling investigations are limited. Even if a case is investigated, afterwards they either use penalties as punishment and instruction as a penalty, or else they use the network of connections and relationships to turn big problems into small ones, and small problems into no problems at all; thus the law appears to exist in name only. On the other hand, the ability to control political power at the grassroots level has become lax, and many party members and cadres gamble, and some areas even form gambling practices in which they "cannot gamble without cadres." Some township enterprises use gambling as a method for soliciting patrons and establishing connections. Because some grassroots cadres gamble, it creates a situation in which "the masses see gambling but dare not report it, because the cadres support it." The directors of some public entertainment spots, hotels, and guesthouses are afraid that if they report the gambling, it will affect their volume of business, and thus they "turn a blind eye" to gambling. This is an important reason behind the rampant growth in gambling in recent years. [passage omitted]

Historical Outline of Naval Rights Consciousness

91CM0024A Beijing JIEFANGJUN BAO in Chinese
14 Sep 90 p 3

[Article in "Military Forum" column by Shi Diansheng (0670 3329 3932) and Zhang Renshan (1728 0088 0810): "On Contemporary China's Lack of Consciousness of Naval Rights From the Historical Perspective"]

[Text] In three days, on 17 September, we will be commemorating the 96th anniversary of the Sino-Japanese War.

By mid-19th century, the bourgeoisie was rapidly gaining power in Japan, and it took an active part in the Western bourgeoisie's colonialist aggression of nations along the coast of Southeast Asia. In 1894 (the year Jiawu by the old calendar), Japan invaded and captured Korea and in late July, without warning, attacked the Chinese Navy and Army. On 1 August, the Sino-Japanese War was formally declared. The Yellow Sea Battle (also known as "the Battle of Dadonggou") began at daybreak on 17 September and lasted five long hours. Although the officers and men of the Northern Fleet, which included the "Zhiyuan" which was under Deng Shichang's command, fought courageously against the combined Japanese naval forces, inflicted serious damages to five enemy vessels, and wounded more than 600 men below the rank of captain, at the end, we were no match for the much stronger enemy and incurred serious losses. In February of the next year, the Japanese invaded and captured the Weihai Naval Port. The Northern Navy was wiped out.

The Sino-Japanese War ended with the Qing government's defeat. This historical episode of blood and tears tells us one thing: For a vast country that borders on the sea to be unconscious of naval rights, or worse yet, to lose its naval rights, is to court disaster.

I

Naval rights are not exactly the same as maritime rights as stipulated in the maritime law. International maritime law stipulates that a country's maritime rights include its sovereignty over the inland seas and territorial waters. The sovereign rights and exclusive jurisdiction over the contiguous zones, exclusive economic zones, and continental shelf are the affirmation through law of a country's vested maritime rights and privileges. In a broader sense, naval rights not only refer to these vested maritime rights, but also include the right to seek, control, utilize, and protect these maritime rights. It is a historical concept and is also a country's strategic theory.

Consciousness of naval rights refers to what people understand about naval rights. It includes what they know about maritime economics, maritime territory, maritime defense, and so on. Maritime economics is the driving force in the creation of naval rights; maritime territory is established by naval rights, and maritime defense is the means to pursue and protect the naval

rights. According to [Alfred Thayer] Mahan, who epitomized contemporary thoughts on world naval rights, only by seizing control of the seas and possessing naval rights can the ocean be developed and put to use, only then can maritime trade be developed and national wealth and strength be attained. If a country is to capture and protect its naval rights, it needs superior naval power, including a large merchant marine fleet, a navy to ensure safe commerce and shipping, and a system of sea lanes and marine bases. Among these, the Navy plays the most important role. Mahan was obviously wrong when he stressed colonization as a part of naval rights, but his idea and comprehensive discussions of maritime economics, maritime territory, and maritime defense as basic components of naval rights were profound. The three—economics, territory, and defense—together make up the complete set of naval rights. Economics and territory facilitate and support the development of coastal defense; coastal defense provides territorial protection and promotes economic development. None of the three is dispensable.

II

Before the Opium War, the Qing government had instituted a ban on maritime trade and foreign contacts which isolated the country from the rest of the world. It had no sense of naval rights that included the control, development, and utilization of the seas and protection of maritime territories. The main purpose of coastal defense at first was to guard against Zheng Chenggong who had taken control of Taiwan; later, it was used to catch smugglers and pirates. The Opium War marked the first time in history that China was invaded by capitalist countries, and the attack had come from sea. It shocked this country that had long isolated itself. "Britain's guns and cannons had completely shorn the Qing dynasty of its prestige. Generations of superstition in the heavenly kingdom was dealt a fatal blow. Its barbaric and closed state and isolation from the civilized world was shattered, and it began to form new relationships."¹ This war changed the pattern of China's national defense. It was forced to shift the focus of its national defense from the northwest mainland to the southeast coast. The target of its coastal defense was no longer the Japanese pirates and other bandits but the capitalist powers bent on their overseas colonial expansion.

Thereafter, faced with repeated disturbances at sea and invasion by the Western powers, the Chinese Government and public realized increasingly the seriousness of the coastal defense crisis and the urgent need for stronger defense. The first to clamor for stronger coastal defense and who enriched China's naval defense ideologies were Lin Zexu and Wei Yuan. They came up with the idea of "learning the foreigner's skills to subdue the foreigners" and shattered the traditional thinking, typical of feudal China, of "guarding against the Westernization of China" and changed the national defense concept that put the emphasis on land and neglected the sea. It marked the awakening of contemporary Chinese consciousness of naval rights.

After Lin Zexu and Wei Yuan, although the Qing government went on to adopt several practical coastal defense measures, including building a modern navy, consciousness of naval rights remained weak. There were many limitations and inadequacies. From the military point of view, they were reflected in the following areas:

1. There was no internal driving force to produce consciousness of naval rights. The first theoreticians on naval rights appeared on the scene not because of China's socioeconomic development, but as a result of China's defeat in the first Opium War. Back then, there were many discussions on how to strengthen coastal defense and protect our naval rights. But all were rejected and ignored by the Qing regime. Soon after the signing of the "Treaty of Nanjing," talks about naval rights quickly ceased.

During the second Opium War, the joint Anglo-French forces took the sea route and drove northward and, landing at Dagukou, they attacked and took Tianjin and Beijing. This cruel reality forced the Chinese officials and civilians to once again turn their attention to the issue of coastal defense. Many central and local government officials and those in the Westernization movement expressed their opinions on coastal defense. Faced with an imminent coastal defense crisis, the Qing government was forced to adopt some of those ideas and began to build modern warships and train modern naval officers. This ushered in a new era of contemporary Chinese consciousness of naval rights.

What really prompted the Qing authorities to take naval rights seriously and make a commitment to build and develop a modern navy were Japan's use of the Ryukyu Island refugee incident as an excuse to invade Taiwan in 1874 and the Fujian Naval Division's defeat in the Majiang Sea Battle in 1884. As soon as the Japanese invasion of Taiwan ended, the Qing government ordered all provincial governors concerned to "devote themselves to the discussion and planning" of the country's coastal defense. Together, the government and the public began to formulate a coastal defense strategy. This brought contemporary Chinese coastal defense discussions to a climax for the first time. The Fujian Naval Division's defeat in the Majiang Sea Battle convinced the Qing authorities of the need to strengthen coastal defense and "revamp the Navy." It decided to "make naval training its top priority." Led by members of the Westernization faction, they again plunged into coastal defense discussions, bringing contemporary Chinese naval defense discussions to a climax for a second time.

These two rounds of discussions played a positive role in awakening China's consciousness of naval rights. But, clearly, they were passive responses to the naval aggression of the capitalist powers. There was no inherent economic and political driving force. The people's consciousness of naval rights followed the track where crisis led to naval rights discussions and a respite from crisis led to cessation of discussions and more crises led back

to more discussions. Moreover, the discussion and practice of naval rights tended to lean toward coastal defense and ignore the use of naval power to control, develop, and utilize the ocean. When a coastal defense crisis eased temporarily, the naval rights discussions were soon forgotten. This formed a vicious cycle where the lack of consciousness of naval rights led to the loss of naval rights, which led to the loss of sovereign rights.

2. Consciousness of naval rights was absent in the national defense strategy. This was reflected first in a national defense guiding ideology that emphasized land and ignored the sea. Before the Opium War, the Qing government basically had made no mental nor material preparations for the possibility of enemy attack from sea, let alone the idea of creating a strong navy to protect and develop the country's maritime rights and privileges. Coastal defense had always been slack, and the soldiers of the naval divisions were hardly ever drilled. "The naval divisions along the coast are manned by the old, weak, and inept. They are poorly equipped, and their weapons are in disrepair. The warships are made out of thin boards and old nails and will fall apart as soon as hit."² Along the span of the long coastline, there was not one well-equipped naval port where attacks could be launched and defense staged. During the Opium War, except for Lin Zexu and Deng Yanzhen and their resistance group, who actively reinforced defense along the Fujian-Guangdong coast, a country as vast as China was devoid of coastal defense. As the door to the capital, Tianjin had 800 old and weak soldiers, and Dagukou had a few dozen Army conscripts. The rest needs no detailing. After the Opium War, the Qing authorities still insisted on the general policy of "making detailed plans to rule the country and sketchy plans to make peace abroad." They continued to take more precautions against disturbances from within than invasions from without. They concentrated their energy on suppressing the Taiping Heavenly Movement and other civilian uprisings, and there was no attempt to fill the coastal defense void. Thus, under the Western aggressors' guns, China was forced to cede land and pay indemnities again and again.

The national defense strategy that lacked consciousness of naval rights was also reflected in the passive, territorial defense-oriented operational policy. There was only the concept of continental territories but not maritime territories. All people knew was to protect the continental territories but not the country's maritime safety. During the first Opium War, as soon as the British troops withdrew from Humen, the Qing government assumed that the threat was over. After the war, it immediately sent orders to all provinces to "relieve the garrison and disband the Army." During the second Opium War, the Qing Army won the first battle, but was immobilized after settling down to defend Dagukou. For more than a year they did little to set up coastal defense and toughen discipline, and eventually the enemy broke through the defense line. The joint Anglo-French troops landed at Dagukou and marched into Beijing. The passive territorial defense strategy failed to safeguard the land.

The lack of consciousness of naval rights was also evident in the absence of reliable and sufficient guarantee of funds for naval and coastal defense installations. Before and after the Opium War, because the Qing government ignored coastal defense, and because of official corruption and embezzlement, most ship-building funds were pocketed by individuals, and for every 10 ships ordered built, at least two or three were missing, and even when the ships were built, some officials would "let their families and relatives sell the ships or lease them to merchants to sail to Siam and Japan to make money through trade." In the 1870's, the Qing government formally decided to build a modern navy and allocated 4 million liang of silver generated by tariffs that the provinces had collected to fund the Northern and Southern Navies. But "despite the decision, the money was soon shifted to other uses. Less than 30-40 percent of the silver collected each year was spent on the Navy. Very little could be accomplished."³ Because of the financial constraint, "only the Northern Navy was built, and the Southern Navy was but a poorly equipped skeleton force." After the Naval Yamen was set up, the Qing government had wanted to transfer the 4 million liang of silver originally intended for the Northern and Southern Navies to that office, but local governments either defaulted on their payments or diverted the funds elsewhere, and the full amount was never collected; at most 3.4 million liang was actually gathered. This forced a drastic cutback in the Navy's budget. The Northern Navy's funding was cut from 2 million to a little more than 900,000 a year. In 1888, after the Northern Navy was formally established, the Qing government decided that "as far as the entrance to the Bo Hai is concerned, we are invincible." Thereafter, it slackened on the construction and development of its Navy and spent approximately 20 million liang of the Navy's budget on the Sanhai reparation project and the Summer Palace, without building a single new ship for the Navy. As a result, even before the Sino-Japanese War, the relative naval strengths of China and Japan had undergone a dramatic change. The Japanese Navy was far superior. This was the reason for the Northern Navy's defeat.

3. The Navy's development lacked a clear strategic guiding ideology. After the Opium War, crises in China's coastal areas and territorial seas continued to mount, but the Qing government only wanted to build ships and buy ships as the way to better equip its old-fashioned navy and strengthen coastal defense and had no plans to build a modern navy. After Japan's invasion of Taiwan in 1874, the Qing government began to turn its attention to developing a modern navy. It began to discuss six programs relating to naval construction: How to train soldiers, make weapons, build ships, raise money to pay the soldiers, enlist men, and sustain the project. Consensus was reached on the necessity and urgency of building a modern navy, and steps were taken to formally establish a modern navy. Yet, in the process, it continued to run into opposition from officials who held on to traditional feudalistic concepts. These people felt

that to purchase modern warships and build a modern navy would amount to "adopting foreign ways to change China." They felt that China did not need new warships and that "it was unnecessary to buy or set up plants to build ships, and there was even less need to have the ships built abroad." They felt that merely stepping up training of the existing Navy "was sufficient to reinforce river and coastal defenses." This group of court officials remained a strong political force that blocked any kind of naval development throughout the late Qing dynasty.

On the question of how to build a modern navy, the Qing authorities were even more divided. As the chief of the Yamen put it, the late Qing dynasty's naval construction "was plagued by disagreements, and many opposed the project. It was short of funds and expansion was blocked. Even after the foundation was laid, no one stepped in to keep the project going. There was no consensus and much disagreement."⁴ In 1885, after the formation of the Naval Yamen which was in charge of naval affairs, there were still no clear-cut plans as to how to develop the Navy, and there were no suggestions or methodologies. The issue of naval development strategy was never properly addressed. By the time the Sino-Japanese War broke out, the Qing government still had no clear and systematic guiding ideology for naval development. This inevitably had a serious impact on the development of China's Navy.

In the absence of a proper strategic naval development guiding ideology, contemporary Chinese naval development in effect took the regional undertaking approach: Instead of developing three navies, the focus shifted to the Northern Navy; instead of coastal defense, the emphasis shifted to protecting the capital. The approach to naval development began to narrow considerably. By 1888, with the establishment of the Northern Navy and the Lushun and Weihai naval bases, the Qing government was convinced that the safety of the capital was ensured, and its sense of urgency in developing the Navy plummeted. The construction and development of China's modern Navy in fact stopped.

4. The passive operational policy gave up command of the sea. During the Opium War, because Britain's fleet was far superior to China's poorly equipped Navy, Chinese troops could not engage in direct combat with the invaders at sea. Thus arose the suggestion that "defending the seaports is preferable to defending the seas, and defending the inland rivers is preferable to defending the seaports." Such operational policy of defending the seaports and shoreline might be a convenient tactic to fend off the enemies under those historical conditions, but should not be the long-term guiding principle for coastal defense and naval warfare for such a vast country bordering on the sea.

Despite the modern Navy, objectively, the Western capitalist aggressors still had better ships and more powerful cannons, and the Qing Navy was no match; subjectively, influenced by traditional territorial concepts and the closed, small-scale peasant economy, the

Qing government never did come to understand the extreme importance of seizing command of the sea. The basic principle behind China's coastal defense tasks was to "guard." Hardly anybody ever talked about combat on the high sea and seizing command of the sea. On the contrary, some people even wanted to "repair the inland roads and forget about fighting for maritime privileges." Li Hongzhang, who was responsible for China's naval and coastal defense, said, "The reason I built ships was not to sail to faraway lands, but to protect and guard our own territory and ensure peace at home." China has a long coastline, how can it be defended? The Qing authorities believed that "the capital is the root of heaven and earth and the Chang Jiang is the source of all wealth. After protecting these most important and second most important places, we can give some defense to the other provinces, seaports, and borders, but even if they are lost, it will have no serious effect on the country as a whole."⁵ With such guiding ideology, China's coastal defense continued to envelop the goal of defending the capital and willingly gave up command of the sea.

The passive, defensive operational policy of the Navy that abandoned command of the sea was apparent first in the Battle of Majiang and again in the sea battles during the Sino-Japanese War, and it produced disastrous results. It was another important reason for the painful loss of the Northern Navy in the Sino-Japanese War.

During the Sino-Japanese War, the basic guiding ideology of Japan's sea battles was "to seize command of the Yellow Sea and the Bo Hai." Conversely, the Qing government's basic operational policy guiding the Northern Navy was to "protect the ships and stop the enemy." After the Fengdao Sea Battle, the scope of the Northern Navy's activities was restricted to the area from the Datong River Delta (later falling back to the Yalu River Delta) to the Weihai coast. It was stipulated that the Northern Navy could only "patrol and guard, and should not stray far from," Weihai, Dalian Bay, Yantai, and Lushun. This in effect surrendered the sea command of the western shores of Korea to Japan. As a result, "Japan had complete naval rights in Korea Bay," and the Northern Navy could only "wander aimlessly in Beizhidi Bay" and "sail around the inner and outer Bo Hai" and was in a passive, defensive position while the Japanese fleet criss-crossed the ocean and sailed freely across the Yellow Sea. Many Japanese army, marine, and military supplies were transported by sea to the Korean Peninsula, and Japanese military capability in Korea was greatly enhanced, which enabled the Japanese invaders to win victory after victory. After the Yellow Sea Battle, Japan "won complete sea command over the Yellow Sea." The Northern Navy was crippled and could not engage in sea battle with the Japanese, and when the Japanese Army landed in Huayuankou under the protection of its Navy and took Liaoning Peninsula, the Northern Navy "could make no active response." Subsequently, the Japanese Army "landed and seized quick victory." The loss of sea command eventually led to the

Northern Navy's defeat in the Sino-Japanese War. It was the disastrous consequence of the lack of consciousness of naval rights.

5. The citizens in general had no concept of naval rights.

Contemporary Chinese consciousness of naval rights was awakened by the Opium War. Both the government and the public launched several discussions on the coastal defense issue, but all the discussions shared one unique characteristic: Only a handful of people, mostly highly placed members of the Westernization faction and the early reformers, took part. The Qing regime basically ignored or was unwilling to consider developing the people's consciousness of naval rights, nor did it encourage the public to take part in the defense of China's naval rights. Not only was the public excluded from the discussions and education on coastal defense but they were robbed of the right to defend against the Western capitalist countries' naval attacks. The whole nation had a weak concept of naval rights. That is why the development of a modern Chinese navy and the strengthening of coastal defense did not receive public support or endorsement, which slowed development of the Chinese Navy.

III

In summing up the above, we can make the following conclusions:

1. As a vast country bordering on the sea, China must establish a strong sense of maritime territory. The national defense concept that only guards the land is a clear reflection of the lack of a sense of naval rights. In a maritime era, this mistake can ruin the country. Contemporary Chinese history tells us that simply guarding the land and the shores will not guarantee territorial safety. To ensure territorial safety, we must first guarantee the country's maritime safety.
2. To safeguard the country's maritime territory and maritime rights and privileges, we must build a strong navy and fight for sea command. Without a strong navy, we cannot safeguard coastal defense and protect our naval rights. A country's naval development strategy has a strong impact on its naval installations. Formulating a correct naval development strategy is one of the prerequisites of a strong navy.
3. The needs of economic development are the basic internal driving force in the birth and the development of naval rights consciousness. The ocean is valuable to mankind first and foremost because of its economic value to mankind. The acts of controlling and utilizing the seas and fighting for and protecting naval rights are basically to achieve for economic gains; and economic development in turn helps people become even more conscious of their naval rights, and this is what motivates them to protect their naval rights.
4. We must educate the whole nation about naval rights and strengthen the people's consciousness of naval rights, teach them about the ocean's economic, political,

military, and scientific values, help them understand the history and the reality of the infringement of China's naval rights, arouse their fervent patriotism, and establish the ideologies of protecting the country's naval rights and supporting its naval forces. Whether a country can control and utilize the ocean effectively has become one of the important standards that measure its strength and that of its people, and the presence or absence of strong naval rights consciousness reflects indirectly whether a nation has the will to better itself and the courage to forge ahead.

Footnotes

1. Marx: *The Chinese Revolution and the European Revolution*.
2. Huang Jiaozi's *Memorial to the Throne*.
3. *Naval History of the Late Qing Dynasty*, p. 58.
4. *Ibid.*, p. 6.
5. *Ibid.*, p. 107.

Nanjing Aeronautical Engineering Institute Successful

HK08N1105 Hong Kong ZHONGGUO TONGXUN
SHE in Chinese 0723 GMT 4 Nov 90

[Report by Lin Hua (2651 2901): "Nanjing Aeronautical Engineering Institute Combines Scientific Research, Teaching With Production"—ZHONGGUO TONGXUN SHE headline]

[Text] Hong Kong, 4 Nov (ZHONGGUO TONGXUN SHE)—Zhu Jianying, president of the Nanjing Aeronautical Engineering Institute, said during a recent interview with reporters that the most prominent characteristic of the institute is the combination of scientific research, teaching, and production and that running a factory on a school campus is a rare thing in China and in the world as well. He disclosed that the institute is proud of being able to produce unmanned aircraft—good news indeed to the Air Force, which is practicing combat skill. Production costs are far lower than those of imported aircraft. At present, the United States is very much interested in this kind of special aircraft.

Zhu Jianying told reporters, "The Nanjing Aeronautical Engineering Institute has started producing fifth-generation aircraft, and a total of 370 aircraft of various kinds have been made thus far, including a helicopter that has a long history and the glider that performed in the opening ceremony of the Asian Games. The production of unmanned aircraft has now become an important project." He disclosed that this kind of aircraft can serve as an Air Force target during shooting exercises and can quickly gather samples from the toxic air after an atom bomb explosion, while the aircraft itself remains in the desert. It has therefore also been called the "sample-gathering aircraft." Besides those flying at high and medium altitudes, a low-flying unmanned aircraft was successfully manufactured last year (capable of flying 50 meters above the ground).

Up to now, the institute has produced more than 70 unmanned aircraft. If these aircraft had to be imported from the United States, each could cost more than \$80 million, whereas each one produced by the institute costs only seven million yuan. At present, about 24 unmanned aircraft are produced each year, and they are used for national defense and are also very competitive on the international market.

According to Zhu Jianying, another characteristic of the institute is that it runs the best laboratories in the country. One example of this is the low-velocity aerodynamic wind cave. Many objects that will have contact with strong winds must be first placed in the cave to undergo the "wind-blowing" test. The big Buddha statue now installed on Hong Kong's Lantau Island is an example of this; before it was shipped to Hong Kong, its model, which was five times smaller, was placed in the cave for testing, and only after ensuring that it would not be affected by typhoons was it shipped to Hong Kong for installation. In addition, West Germany's MBB Aircraft Company is currently cooperating with the institute in testing aircraft.

Also, the microwave darkroom can accommodate real aircraft, whose reliability can be tested through wireless radar.

The school has the best English language training center in the country. Last year, only two persons earned full marks in the Test of English as Foreign Language [TOEFL], and one of them is a student at the center. Many Hong Kong and Macao students who want to study overseas go to the center for English training.

CENTRAL-SOUTH REGION

Guangzhou To Rectify 'Three Disorders'

91CM0030A Guangzhou GUANGZHOU RIBAO
in Chinese 8 Sept 90 p 1

[Article by Li Siqun (2621 1835 5028): "Guangzhou To Rectify 'Three Disorders'; Checking Up and Rectifying"]

[Text] At the municipal government's news briefing yesterday, this reporter heard that Guangzhou has achieved initial success in its efforts to clear up problems of unreasonable charges and fines, and unreasonable apportionment of expenses. By using the method of checking as well as rectifying, the municipal government has checked and put right "three disorders" activities which were obviously unreasonable and illegal.

According to incomplete statistics, there are 535 fees charged in Guangzhou, and a total of about 540 million yuan in fees is collected each year; there are 83 fines and 94 apportioned expenses. Judging from the self-checking and self-reporting activities of the past two months, the "three disorders" phenomenon is quite common in Guangzhou. In some areas and work units, the problems are relatively serious.

First, fees are collected under various names, and the charges come from many departments. Fee standards are unreasonable. There are up to 17 different fees related to sanitation. According to incomplete statistics from the Huadijie Industrial Company in Fangcun District, a neighborhood enterprise must bear the cost of 41 kinds of charges in addition to turning over all kinds of taxes. The Guangzhou Consolidated Supply and Management Corporation spent 310,000 yuan to change its business license this year. This accounted for 91 percent of its total profits earned from January to July this year. Second, there are many departments responsible for imposing fines for violations. The occurrence of repetitive fines is very serious. If there is a benefit, departments will compete with one another to impose fines; if there is no benefit, no departments enforce the law. When enforcing laws, they do not follow regulations, or else they do not have regulations to follow, and enforcement is discretionary. Fine standards are too elastic. They can impose fines as high as 10,000 yuan or as little as nothing. It all depends on what those enforcing the law say. Some departments and work units also set their own fines for things within their jurisdiction, or they do not use unified tickets and randomly impose fines on their own. Third, there are many disguised and forced forms of apportioned expenses which enterprises and the masses are hardly able to take. The Guangzhou Heavy Machinery Plant had 1.07 million yuan in apportioned expenses in one year. Of this, 240,000 yuan was a consulting fee. The Guangzhou Broadcasting Equipment Plant paid 330,000 yuan in support fees in one year.

At present, the work of rectifying the "three disorders" in Guangzhou has been unfolding according to plan.

Those work units which are supposed to be checked out have basically finished their self-checking and self-reporting work, and have done some preliminary work to rectify the "three disorders" problem. To date, they have already removed or lowered the standards for 52 fees and seven fines. It is estimated that this will reduce the burden of enterprises and masses by 24,000,000 yuan in one year. Nine apportioned expenses amounting to 900,000 yuan have been stopped. Some rather arbitrary charges have been rectified. For example, there are unified regulations governing the content and standard of public order and joint defense fees. In addition, complaints the masses have about the "three disorders" problem have also been handled. For instance, the masses reported that some districts, such as Liwan District and Tianhe District, charged 0.70 to 1.50 yuan more per person for those changing their certificates while awaiting job assignments. Relevant departments of the municipal government immediately stopped the practice.

The responsible person of the leading group in charge of rectifying the "three disorders" in the municipality pointed out at yesterday's briefing that there were still a few work units in Guangzhou which did not pay enough attention to rectifying the "three disorders" and did not implement such work. Some units which had been charged before feared retaliation of various types, and had many misgivings. Other units accurately reported the items, but they were censured by the departments concerned. Presently there are only few departments and units which still impose apportioned expenses and charges under various names. He said that rectifying the "three disorders" was an important part of improvement and rectification and of governing the city based on law. Units concerned should eliminate the worries in their minds and dare to disclose the facts. They must trace the retaliators and determine their responsibility. Units which did not do a serious self-check, which handed in "blank examination papers," or which held something back for themselves, must make up the lessons they missed within a definite period. We should stick to the policy of checking while rectifying, and ensure that the work of cleaning up and rectifying the "three disorders" is not just going through the motions.

Sentences Handed Down in Criminal Cases

91CM0030B Guangzhou GUANGZHOU RIBAO in
Chinese 19 Sept 90 p 1

[Article by Huang Dongsheng (7806 2639 3932) and Ge Qizen (5514 0796 1073): "A Group of Major Criminals Were Executed Yesterday in Guangzhou; Trial Decisions Were Handed Down in Nearly a Hundred Cases Involving Major Criminals"]

[Text] Yesterday, Guangzhou Intermediate People's Court and local People's Courts in eight districts and four counties of the municipality held separate mass sentencings and executions. After their sentences of death were approved by the higher people's court, the

principal criminals who had seriously threatened public security were sentenced to the death penalty according to the law, and they were sent under escort to the execution ground and executed by the firing squad. Meanwhile, major criminals in nearly a hundred major and vicious cases were given first trial sentence according to the law, with some sentenced to death, some to life imprisonment, and some to a specified prison sentence.

Sentenced yesterday were Zhao Rujia [6392 3067 0163], the assailant who shot and killed Xie Derong [6200 1795 2837] of the People's Armed Police, as well as 24 major thieves, 20 robbers, 14 criminals charged with assault with intent to kill, four criminals for buying and reselling goods, and two hoodlums. After criminals Zhang Fuwan [1728 0102 8001], Jiang Tianqing [5592 3944 3237], Zhang Congwan [1728 1783 8001], Wu Guopei [0702 0948 3099], and others fled to Guangdong from other provinces, they stole a large amount of state and private property valued at over 130,000 yuan. Yesterday these four were executed by firing squad. After they were released after completing their sentences, Ruan Xia [7086 5802], Liao Zhiwei [1675 18070251], and joint offenders Ou Dongming [2962 5516 2494] and Chen Jian [7115 0256] robbed people at knife-point in public restrooms late at night on numerous occasions, stealing public property (see the report in the 10 September edition of this paper) and seriously threatening public security. Ruan, Liao, and Ou were executed yesterday. Criminal Chen Jian was sentenced to death, but his execution was suspended for two years. He was also deprived of his political rights for life.

Sponsored by Yu Qiguan [0151 0796 0342], a scoundrel from Hong Kong (handled in another case), offenders Tang Yaokun [3282 5069 0981], Li Kejing [2621 0344 1064], and Chen Weixin [7115 4850 2450] went to a border area in southwest China. Through offender Huang Zhenzhong [7806 2182 1813], they illegally purchased about 20 pistols and some bullets, and brought them back to Guangzhou to sell, seriously threatening public security. The Municipal People's Court sentenced Tang, Li, Chen, and Huang to death, and they were executed by firing squad yesterday.

Offender Feng Jucai [7458 1565 6299], along with offender Tang Yaokun [3282 5069 0981] illegally bought and sold 12 various pistols and 50 bullets. Based on his crime, Feng should have been executed also, but since his arrest he has performed meritorious services to atone for his crime. Thus, the court reduced his punishment to life imprisonment, in accordance with the law.

Guangdong Official on Handling Pornography Cases

HK1911055990 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 13 Nov 90

[Text] At the provincial antipornography work conference which concluded on 11 November, Zhang Peiyu, deputy chief procurator of the provincial procuratorate, urged procuratorial organs at all levels in the province to

pay special attention to linking crackdown and handling in the antipornography struggle, giving play to their role of legal supervision, so as to ensure the healthy development of the struggle.

Zhang Peiyu stated that statistics show that a great number of cases have been cracked in the antipornography struggle in our province, but only a small portion of them have been transferred to procuratorial organs for approval of arrest. Such instances of weak crackdown and limp handling have disturbed the broad masses. Therefore, procuratorial organs should take the initiative, in cooperation with other relevant departments, to screen the cases, especially major and important ones, that have been cracked during the recent antipornography struggle. Relevant departments should be urged to transfer all cases which are of a criminal nature but which have not yet been processed to legal departments for approval of arrest and prosecution in accordance with legal procedures. There should be rearrests and convictions in those cases that have been processed in an obviously incorrect way, causing the discontent of the masses. Procuratorial organs should exercise supervision and intervention on their own initiative regarding cases in which those who should be arrested have not been transferred to procuratorial organs for approval of arrest, those who should receive penalties have not been convicted, or the handling has been wrong.

NORTHEAST REGION

Jilin CYL Ideological Work Meeting Ends 15 Nov

SK1711040090 Changchun Jilin Provincial Service in Mandarin 2200 GMT 15 Nov 90

[Text] The provincial conference on the ideological and political work conducted for the Communist Youth Leagues [CYL] ended in the city of Changchun on 15 November. It was agreed at the conference that at the present and in the future, the province's CYL ideological and political work should be continuously deepened and be based on education, with reform and struggle as the major theme. Efforts should be made to extensively and deeply carry out the activities of learning from Lei Feng; to accept the task of dealing with the group activity of backward and misled youths and of giving them a helping hand on the important position of the CYL work; and to strive to conduct CYL ideological and political work in a down-to-earth manner. In carrying out ideological and political work over the past few years, the CYL organizations at all levels have conducted education among the broad masses of members on enhancing the consciousness of being a member. They have done this by beginning with the work of establishing experimental units of CYL organizations and by upholding the correct political orientation. They have also conducted extensive and deep education in the party's basic line, with the major theme of reform and struggle. Since entering the 1990's, CYL organizations at all levels across the province have launched a large-scale campaign of learning from the spirit of Lei

Feng. They have launched a series of activities to encourage youths to have lofty ideals and moral integrity, to be well-educated, and to have self-discipline. They have also led youths to integrate the campaign of learning from the spirit of Lei Feng with efforts to put the spirit into practice and to strive to be good young men in the style of Lei Feng by keeping the party in view. Thus they have effectively upgraded the living ideals and moral integrity of the broad masses of youths and have steadily developed

a large number of units and individuals outstanding in the activities of learning from Lei Feng.

Prior to the provincial CYL ideological and political work conference, Du Qinglin, deputy secretary of the provincial party committee, visited the CYL cadres who were to attend the conference and encouraged them to make sustained efforts to improve the CYL ideological and political work even more.

Capital Outflow, Stock Market Undergo Decline

90CE0367A Taipei TSAI HSUN [FINANCIAL INFORMATION] in Chinese No 100, 1 Jul 90 pp 284-286

[Article by Sung Tzu-Ping (1345 1311 1627): "Capital Outflow and Stock Market Bleeding—When Will Major Stock Prices Drop to the Bottom?"]

[Text] The stock prices of Taiwan's stock market, of which the performance was excellent in the past three years, have been in a slump since the beginning of 1990. The three-year long bull market was a result of the influx of a large amount of hot money due to the appreciation of new Taiwan dollar against US dollar. The great setback of the past six months was caused by capital outflow and stock market weakening as a result of political disturbances and falling Taiwan dollar.

Bull Market Is Gone Forever

The exchange rate of the new Taiwan dollar against US dollar was 40.56 yuan on 20 September 1985. After over three years of appreciation of Taiwan dollar, the exchange rate dropped continuously and reached 25.3 yuan on 4 May 1989. After that, Taiwan dollar stopped rising and began to fall. Due to a favorable trade balance and the influx of a large amount of hot money, the foreign exchange reserve of the Central Bank increased substantially from \$22.56 billion in 1985 to \$76.7 billion in 1988. The weighted stock price index soared three times and rose suddenly from 859 points on 18 August 1986 to 12,682 points on 12 February 1990, a growth of almost 14-fold.

On 4 May 1989, the exchange rate of new Taiwan dollar against US dollar stopped rising and began to fall from 25.3 yuan, putting an end to the influx of hot money into Taiwan. After the Tiananmen massacre on 4 June, Communist China switched to a retrenchment policy, causing the number of orders transferred from Hong Kong to decline noticeably. Since then, the foreign exchange reserve of the Central Bank has shown a trend of slow decline. Consequently, after June 1989, the weighted stock price index hovered around 12,000 points for almost a year.

Since the beginning of 1990, US dollar has been generally strong on the international foreign exchange market. Besides, since February, Taiwan has been plagued by the race for president and vice president, candidates for new cabinet members, mass street demonstrations, political disturbances, social disorder, and the threats of Communist China on the other side of the strait. Because of this, and also because most Taiwan residents think that the new Taiwan dollar may depreciate, a panic buying of the US dollar has begun.

On the domestic foreign exchange market, new Taiwan dollar depreciated rapidly for five months from 25.9 yuan on 7 January to 27.53 yuan on 22 May. From February to 26 May the foreign exchange bank had an

unfavorable balance of trade of the US dollar in the amount of \$7.055 billion. If we take into consideration the fact that the sign of confusion started around the elections of legislators, county magistrates, city mayors, and provincial and city council members which were held on 2 December 1989, an unfavorable balance of foreign exchange trade appeared as early as November 1989. In the past seven months, the net loss of capital was \$8.956 billion. By January, the foreign exchange reserve of the Central Bank dropped to \$68 billion. Since there was over \$5 billion of commodity trade surplus between November 1989 and May 1990, the actual loss of capital should be more than \$14 billion. The loss of a large amount of capital is the greatest reason why the domestic weighted stock price index tumbled from 12,682 points on 12 February.

Information Blackout by the Central Bank Puts an End to the Panic Buying of Foreign Exchange.

Since the beginning of 1990, turbulent political situation and capital outflow have caused a fund shortage in banks and a rise in interest rates, thus resulting in economic depression and a sharp decline in stock prices. Out of responsibility, the Central Bank could not but release funds and prevent capital outflow in an effort to bring down the level of interest rates and remedy the depression. To this end, beginning on 29 May, the Foreign Exchange Bank stopped making daily announcements on the favorable or unfavorable balance of trade of the US dollar. The Central Bank also decided to abolish the provision on the redeposit of matured treasury bonds. This would allow treasury bonds maturing between mid-May and late December to release 300 billion yuan—over 50 billion yuan in the second half of May and about 29.6 billion yuan in June. The blackout of information on the favorable or unfavorable balance of daily foreign exchange transactions, aimed at stopping panic buying of foreign exchange, also produced some temporary effects.

On 29 May, transactions between foreign exchange banks still remained high at \$200 million, and transactions between foreign exchange banks and their clients might have had an unfavorable balance of \$130 million. But during the period between 30 May and 11 June inter-bank transactions were all under \$120 million, averaging only \$7,860 a day. This indicates that there was not much speculation, and that if there were an unfavorable balance, the amount would not have been significant. As a result, during the period between 18 May and 4 June, bank reserve departments remained overloaded. The quotation of transfers of money holders may have risen from 5822.85 points on 26 May to 8007 points on 2 June, showing a mid-term rebound. A major reason for this is, of course, the temporary relaxation of the money supply.

Seasonal Outflow of Foreign Exchange Affects Stock Prices

On 12 June, the transactions of US dollar between foreign exchange banks suddenly jumped to \$146 million. On 13 June, it rose further to \$284 million. On 14 June, it fell to \$123 million. By 15 June, it had risen again to \$194 million. In the past four days, in order to eliminate the fear for the depreciation of new Taiwan dollar, the Central Bank released a total of \$500 million, prolonging the shortage of bank reserves caused by the delivery of land taxes in early June. Moreover, due to the rumor that Communist China is considering the restoration of the Fuzhou Military Region, the weighted stock price index tumbled from 8007 points on 2 June. It rose three times from 5800 points, but it did not stay up.

The increase in the remittance of foreign exchange since mid-June may have been caused by the peak season of foreign exchange sales of Taiwan's foreign exchange market like February 1989.

In order to coordinate the calendar and fiscal years, each year in June and December, and particularly in the latter half of these months, foreign investors in Taiwan and large domestic financial groups which have companies abroad remit overseas the various profits they have earned in Taiwan over the previous six months. In addition, domestic civilian enterprises, especially publicly run enterprises, make their capital and interest payments on loans for overseas purchases mostly in June and December. For instance, on 13 June, Ford remitted over 4 billion yuan of profits back to the United States, creating an unfavorable balance of foreign exchange as high as \$250 million for that day. The prediction is that more money will be remitted as the end of the month approaches. It is estimated that the unfavorable balance of the remittance of US dollar may exceed \$2 billion in June.

The increase in the remittance of foreign exchange at the end of June and the delivery of over \$40 billion of profits by public enterprises in July will further weaken the stock market which is already short of funds. The third category of funds has lost its vitality after major forces were decapitated and all chips were in the hands of money holders. As far as the Fuhua financial company is concerned, because short-term loans below 6000 points have increased to 60 percent, reached as high as 47.2 billion yuan on 15 June, and is rapidly approaching the current limit of short term loans of the Fuhua financial company—60 billion yuan, the Fuhua financial company is forced to implement for the first time a loan quota system. Loan recipients are required to increase the amount of their own funds if their stock prices decline 16 percent. It is easy for the weighted stock price index to drop but not rise. Further declines are probably unavoidable.

When Will Stock Market Clear Up Again?

With regard to the loss of funds, after the peak season of foreign exchange remittance which is the end of June, the unfavorable balance of US dollar trade of foreign exchange banks will be improved. However, only 10

billion yuan of treasury bonds issued by the Central Bank and held by banks will be mature and redeemed in July while more than 40 billion yuan of profits of public enterprises will be delivered to the treasury in July. Because of this, the fund situation of the banking system probably will not be improved before July. The next wave of increases in the weighted stock price index, at least the mid-term rebound, is most likely to occur in August and September. Investors should buy when the weighted stock price index dropped to the bottom during the July-August period and wait for a chance to profit.

At the bottom of 4000 to 5000 points, the capital-to-profit ratio of many stock prices has dropped 20-fold. These stocks are the targets of long-term downward investment of corporations. Wang Chien-hsuan [3769 1696 3551], new Minister of Finance, also constantly advocated the policy of encouraging good-performance stocks and attacking speculation. Moreover, speculators, the third category, as well as money holders, have become wary after learning a bitter lesson from the crash of the market, selling stocks at a loss, and getting stuck with unwanted stocks. Like those who were bitten once by a snake will be afraid of straw ropes throughout their life, they will not dare to pay for others and expect to be repaid later; nor will they dare to engage in speculations in the near future. Because of this, during the bottom period of July and August, it is better to buy low-priced, good-performance stocks such as cement (not including the Taiwan Cement Company), plastics, electric appliances (not including Shihlin Electric Company), automobile, and finance as well as the stocks of financial groups such as Tungi, Fareast Textiles, Hualung, Taiwan Chemicals, Taiwan Glass, Chinese Paper, Chinese Steel, Taiwan Rubber, Changjung, and Fareast Department Store.

Independence Advocates' Perception of Mainland

91CM0043A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 185, 30 Sep 90 pp 70-71

[Article by Chiu Ming-hui (6726 6900 6540): "Taiwan Independence Advocates Become Even More Defiant in Their Desire for 'Independence' After Visiting Mainland 'China'"]

[Text] "I will never again visit your China in this lifetime, because it is like a jungle here!" This was what independence advocate Yang Pi-chuan [2799 4310 1557] told a former Jiaotong University lecturer in Shanghai at the end of a three-week visit to Mainland China.

Conflicts Over Visits to Mainland China

Since Taiwan lifted its ban on family visits to Mainland China, many Taiwanese have gone there one after another. Although it goes without saying that those who have had to live far away from their native land for four decades and hope to see China reunified are excited about visiting their native land, the same trip leaves an

entirely different taste in the mouths of the determined "Taiwan independence advocates" who go there. The recent visits to Mainland China by independence advocates are certainly a rare sight, and their reasons for taking such trips also give much food for thought.

Li Hsiao-feng [2621 4607 1496], a historian who advocates "Taiwan independence now," went to Mainland China early in March 1990 on a 10-day "last-ditch visit." These visits to "the sacred land of their ancestors" have aroused a certain amount of conflict among independence advocates who are holding high the banner of "Taiwan independence." Li Hsiao-feng even had a disagreement about this visit with his close friend and historian colleague, Chang Yen-hsien [1728 3508 2009], who could not forgive Li for visiting Mainland China on a "Taiwan compatriot visa." Li Hsiao-feng said that he should not be compared with those who take "pilgrimages" to Mainland China, as he was going simply to find out what this shining-with-truth "socialist native land" was actually all about.

Li Hsiao-feng's visit was not unique, its counterpart being the visit with a friend to Mainland China in mid-April 1990 by former HSIN CHAO LIU [NEW TREND] magazine editor Yang Pi-chuan. This self-styled "diehard Taiwan independence advocate" has written and published three history books, including *A Brief History of Taiwan*, and used to run HSIN CHAO LIU jointly with people such as Wu Nai-jen [0702 0035 0088], from whom he later parted company due to differences of opinion.

Yang Pi-chuan actually felt no inner conflicts about visiting Mainland China. He said that this was a golden opportunity to probe deeply into the "tiger's den" which, if not taken advantage of in 1990, might not be so easy later on if relations between the KMT [Kuomintang] and CPC became strained again.

By the time his flight had left Hong Kong and entered Mainland China's airspace, Li Hsiao-feng's mood had begun to change to an unaccountable sense of constriction. He said, "This was probably a response to my childhood conditioning by KMT anticommunist training!" When he saw the calloused faces and rude attitudes of the public security officers as he was passing through customs in particular, he began to feel the chilling atmosphere of authoritarianism.

Yang and Li Both Avoided Official Contacts

In order to prevent any unnecessary misunderstanding, Yang and Li both avoided official contacts. Li Hsiao-feng met only with Chen Kongli [7115 1313 4539], chairman of Xiamen University's Taiwan History Institute, whose guardedness left a deep impression on Li. Although, during a phone conversation the day before their official meeting, Chen Kongli had seemed very surprised that Li was coming to see him, Chen also told Li that he was well-informed about Li's works and the public opinion page of SHOU TU TSAO PAO [CAPITAL MORNING NEWS], of which Li was editor in

chief, which raised Li Hsiao-feng's hackles. Moreover, Chen Kongli told Li Hsiao-feng that their meeting could not be public, but must be changed to a private one, which upset Li Hsiao-feng even further.

On the day of their meeting, Chen Kongli invited the institute's vice chairmen and professors along to avoid any suspicion of unauthorized contact and, whenever Li Hsiao-feng mentioned the issue of Chinese unification versus Taiwan independence, Chen immediately changed the subject. Even though political issues were avoided throughout the meeting, Li Hsiao-feng's gentle and cultivated scholarly manner left a deep impression on Chen Kongli.

Yang Pi-chuan had a big debate on Chinese unification versus Taiwan independence with a 50-plus-year-old Beijing University professor whom he met on the train. When this Beijing University professor said that only a handful of Taiwan independence advocates were quibbling over the so-called Taiwan issue, Yang Pi-chuan responded immediately by asking him the following questions: "Do you know how many people there are in the Democratic Progressive Party who advocate Taiwan independence? Do you know why they won so many seats in the new National Assembly in 1989's elections?" When the Beijing University professor was unable to answer these questions, Yang Pi-chuan went on to say, "Since your Uncle Deng (referring to Deng Xiaoping) went mad and threatened to dispose of the Taiwan issue within five years, we have declared that we will gain our independence within five years!" When Yang Pi-chuan stated emphatically that "The day you attack Taiwan will be the exact moment we proclaim our independence!," the Beijing University professor was left stunned and speechless!

Yang Pi-chuan, who spent three days on a boat and 30 hours on a train to get to Chongqing, was very unforgiving of Taiwanese who acquire special privileges because they hold Taiwan compatriot visas, asking "When others are outside exposed to the wind and sun, why should those with Taiwan compatriot visas not have to wait in line and be allowed special seats?" He further pointed out that the CPC is the biggest holder of special privileges, which are so prevalent throughout the PRC.

The CPC Is the Biggest Holder of Special Privileges, Which Are So Prevalent Throughout the PRC

Li Hsiao-feng was very disgusted with "Chinese" television because its entire contents are political propaganda and official jargon by senior cadres. He also thought that Mainland Chinese people generally feel hopeless about their future, with some expressing freezing irony and burning satire about their government, and others criticizing it without mercy. In discussing the situation since 4 June 1989 with the driver of a metered taxi on his return from the Beijing Summer Palace to the Huadu Hotel, when Li Hsiao-feng told him that, despite the increasing numbers of people who are advocating Taiwan independence, the Beijing government continues

to talk about liberating and massacring Taiwan, the taxi driver responded promptly by saying, "All right, all right, let them talk. The sooner you wake up the better!"

Li and Yang both felt that many Mainland Chinese are well aware of Taiwanese prosperity, and often take advantage of it for purposes of extortion. Yang Pi-chuan once boarded a bus for 0.20 yuan, but was made to pay 4.00 yuan when he got off, the reason given being that the bus fare had gone up and he had paid only the old ticket price. When he asked the driver when the fare had gone up and why he hadn't been told about it when he got on the bus, the driver told him evasively that the fare had gone up yesterday. Although Yang Pi-chuan was furious about this, he just had to consider it as his own bad luck.

Yang Pi-chuan met many intellectuals while in Mainland China. He thought that, although their professional knowledge was not bad and they were quite well-intentioned, they were relatively lacking in sincerity. He thought that their biggest problem was that they were too estranged from the common people, which was why the student leaders were forced to escape abroad after the failure of the Tiananmen student movement.

The CPC Threat Must Not Be Underestimated

Yang Pi-chuan and Li Hsiao-feng's respective three-week and 10-day trips to Mainland China have reaffirmed their commitment to Taiwan's need to divorce itself from Chinese unification. Li Hsiao-feng says that it would be impossible for Taiwan to develop under the shroud of Chinese centralization of state power. Yang Pi-chuan also points out that history has proved that the sooner the sphere of Chinese influence is left behind, the sooner prosperity is achieved. Japan is an example of this, and Hong Kong has prospered even more because it was not under Chinese rule.

Although they both advocate Taiwan independence, neither Yang nor Li dares to underestimate the CPC military threat. Li Hsiao-feng does not dare to say whether he thinks that it is certain that the CPC would really use force if Taiwan proclaimed its independence, because there are certain irrational factors at work in the CPC that must be considered.

Yang Pi-chuan thinks that, as the CPC might attack Taiwan at any time, everyone must be always prepared for war. Moreover, he lashes out at HSIN CHAO LIU's argument that "the CPC would not necessarily use force if Taiwan proclaimed its independence" as an "Ah Q-ism." He says that HSIN CHAO LIU's simple comparison of military might makes no sense and does not dare to face up to reality.

Since ending his Mainland China tour, Yang Pi-chuan has an iron determination not to go back himself, although he has encouraged those who do not have a firm position on Taiwan independence to return and try living in Mainland China for a month. And, as Li

Hsiao-feng's plane was leaving Mainland Chinese airspace, he immediately felt relieved, saying "As I leave this country which claims to want to liberate others, I suddenly feel much freer."

First Cholera Case in Three Decades Confirmed

OW0511034690 Taipei CNA in English
0315 GMT 5 Nov 90

[Text] Taipei, Nov. 5 (CNA)—The National Health Administration (NHA) Saturday confirmed the first cholera case in the Taiwan area in nearly three decades.

A spokesman for the NHA's Epidemics Control Department said the patient, a 44-year-old male residing in Kaohsiung in southern Taiwan, apparently had contracted the infectious disease during his stay in Indonesia.

The patient, surnamed Tsai, returned home from Indonesia on Oct. 26 and developed such cholera symptoms as vomiting and diarrhea three days later, the spokesman said. After the case had been confirmed, the patient was separated to prevent the disease from spreading.

Taiwan was last hit by the epidemic of cholera in 1962 when more than 300 cases were confirmed. Since then, the infectious disease had been eradicated under effective precautionary measures and tight monitoring of all medical institutions.

In light of the cholera case, the NHA Saturday cautioned Republic of China citizens heading for Indonesia and 27 other cholera-stricken countries to heighten their vigilance against the disease.

The 27 countries are Algeria, Angola, Burundi, Cameroon, Ivory Coast, Ghana, Guinea, India, Kenya, Liberia, Malawi, Malaysia, Mali, Mauritania, Morocco, Mozambique, Nepal, Niger, Nigeria, the Philippines, Romania, Sao Tome and Principe, Thailand, Tanzania, Vietnam, Zaire and Zambia.

Beijing Plans Meeting on Taiwan, Reunification

HK0911035790 Hong Kong SOUTH CHINA
MORNING POST in English 9 Nov 90 p 13

[By Willy Wo-lap Lam]

[Text] Beijing is planning a large-scale conference on united front work towards Taiwan in a bid to speed up national reunification.

At the same time, the leaders of Taiwan's major opposition party, the Democratic Progressive Party [DPP], are preparing for trips to China and Mongolia.

Informed sources say the meeting on Taiwan will be held late this month or in early December to thrash out new policies to speed up reunification.

Participating units include the Chinese Communist Party's Leading Group on Taiwan Affairs (LGTA), the

central Government's Taiwan Affairs office (TAO), the United Front Department, the Chinese People's Political Consultative Conference (CPPCC), and Taiwan-related democratic parties such as the Revolutionary Committee of the Chinese Kuomintang.

The conference will probably coincide with the appointment of the Governor of Fujian province, Mr Wang Zhaoguo, as TAO director.

A major theme of the conclave will be to reassess Beijing's Taiwan policy in view of the Kuomintang (KMT) administration's repeated refusal to have direct contacts or to discuss reunification with mainland officials.

In a meeting earlier this year with Mr Teng Wen-yi, an aide to the late Taiwan president, Chiang Kai-shek, China's senior leader Mr Deng Xiaoping expressed impatience over the reunification issue, saying he hoped Taiwan would return to the womb of the motherland within three years.

Informed sources say that in view of the KMT's refusal to hold "party-to-party" talks with the Communist Party, the conference would explore ways to hold "secret" or "informal" meetings with KMT emissaries in neutral territory including Hong Kong.

At the same time, Beijing will boost united front work with businessmen and ordinary residents, hoping that more Taiwan investment in China and people-to-people contact will force Taipei to make an early response to the party's overtures.

The sources say that during the meeting, the Consultative Conference, China's non-communist parties, external trade, cultural and academic units would be asked to redouble efforts to boost business and non-official links with Taiwan.

China's top Taiwan experts will also assess the impact that political changes in Taiwan—including constitutional reform and direct elections for the legislature and other offices—will have on the prospect for reunification.

The meeting will also discuss Beijing's response to Taipei's establishment of an "intermediary body" to handle relations, as well as the law on mainland-Taiwan relations recently moved by the Taiwan legislature.

Meanwhile, an advance party from the DPP has arrived in Beijing to lay the groundwork for the visit there by party leaders, including chairman Mr Huang Hsin-chieh.

Mr Huang had been invited by President Mr Yang Shangkun, also head of the LGTA, to visit China in the summer, but his trip will probably be postponed.

Yesterday, the DPP also announced that it had accepted an invitation by Mongolia's opposition Free Labour Party to visit Ulaanbaatar.

While the KMT still considers Mongolia as Chinese territory, the DPP last month passed a resolution saying that Taiwan's de facto sovereignty no longer covered either Mongolia or mainland China. A delegation of local-level DPP cadres is scheduled to visit Beijing later this month.

President Swears in Three New Ambassadors

*OW1211211890 Taipei CNA in English 1042 GMT
12 Nov 90*

[Text] Taipei, Nov. 12 (CNA)—President Li Teng-hui Monday morning presided over Presidential Office swearing-in ceremony for three new ambassadors. The three are Lu I-cheng for the Republic of South Africa, Chang Shih-cheng for the Solomon Islands and Shih Cheng-jen for the Republic of Malawi.

At the ceremony, the three vowed to do their best for the advancement of the ROC's [Republic of China] relations with the countries they are being sent to.

Conflicts Between Two Quasi-Parties Examined

91CM0022B Hong Kong MING PAO in Chinese
13 Sep 90 p 20

[Article by Lu Fan-chih (7627 0416 0037): "Some Problems Between the Two 'Quasi-Parties' of the 'Democratic Factions'"]

[Text] After the emergence of the "1997 issue," Hong Kong's "democratic factions" have been in the process of formation for several years. Although their composition is complex and varied, up to now their role has generally been more positive than negative, although problems have existed for several years in the line of mainstream "democratic factions." For example, "democratic resistance to communism" has become the basic tactic of the "democratic factions'" mainstream faction, which, under the real, specific circumstances of the relationship between Hong Kong and the Chinese mainland, is obviously highly unsuitable for Hong Kong's actual plight.

To be sure, certain extremists among the Chinese Communists lump all "democratic factions" into what they call "anticommunist factions" and totally repudiate them. This viewpoint is mistaken. Certain extremists among the "democratic factions" make all sorts of criticisms of and are hostile to the "democratic factions," to such an extent that attention-getting incidents among the "democratic factions" have occurred time and again that are in total conflict with the democratic spirit (the most recent example was when Feng Chien-chi [7458 2914 1015], chairman of the "Association for Democracy and People's Livelihood," ["Association for Democracy"] was unjustifiably criticized and attacked by certain so-called representatives of the "democratic factions"—incidents that are likewise mistaken. The "democratic factions" should make a fundamental self-criticism and rethinking of the way they want to go. In fact, behind these undemocratic incidents among the "democratic factions," behind the development of contradictions and the splitting and reorganizing of the different groups among the "democratic factions," there exist, to different degrees, divergent opinions within the "democratic factions" about the line and the tactics of Hong Kong's democratic movement.

"Democratic Factions" and the "Transclass" Problem

In an article I once published, I contended that, in making the class interests of "quasi-parties" an issue, the "Association for Democracy" clearly emphasized that it took the lower- and middle-class line (of course, coordination with the overall interests of society must also be taken into consideration), and that the "Hong Kong United Democratic Alliance" ["HK Alliance"] has tended toward a "transclass" line, in which "the three classes—upper, middle, and lower—would be united in one party." Both the "Association for Democracy" and the "HK Alliance" have friends who disagree with this last formulation. Citing the example of the "HK Alliance's" problem with the importation of workers, they

think that the "HK Alliance's" tilt toward the interests of the middle and lower classes does not look different from that of the "Association for Democracy." From this they extend the meaning of the formulation, that is, they say that the "HK Alliance" and the "Association for Democracy" alike take the line of the middle and lower classes and not the "transclass" line. My reply to this criticism is: In the "HK Alliance" there are, of course, some core members who tilt toward the interests of the middle and lower classes and who affect some policies of the "HK Alliance," but there are also some core members who tilt toward the interests of those who belong to what is relatively the upper class, and they tend to get more industrial and commercial figures to "join the party." This uncoordinated situation is related to the fact that the "HK Alliance" as a political party is still far from being truly mature. Roughly speaking, there are at least two situations in the "transclass" line. First, there is a situation that is fairly mature, namely, the forces of the interests of the different classes "in the party" have reached a relatively clear compromise. They have a "common understanding" (in line with the relevant experience of various countries, a compromise on so-called "transclass" interests generally requires making fairly many concessions to the interests of the middle and lower classes and of the grassroots level, although in individual partial links there can be a fair amount of concern for the interests of the middle and lower classes). Second, there is a situation that is not mature, namely, that the forces of the different class interests have not reached a clear compromise, and they are still, with muddled political platforms, in a state of "each doing its own thing," to the extent that, while some members talk big about winning over the industrial and commercial circles, there are also some members who engage in activities that are clearly in conflict with the interests of these circles. However, that this kind of contradictory phenomenon appears is actually simply because taking the "transclass" line is being tried out and the line has not yet matured.

Overlapping of Core Members of the "HK Alliance" and "Hong Kong Alliance in Support for the Patriotic Democratic Movement in China"

I also once thought that the "HK Alliance," in considering political tactics of an overall nature, still carries on the tactic practiced by the mainstream faction of the "democratic factions" in the past, that is, what is called "democratic resistance to communism." However, there are also friends in the "HK Alliance" who criticize by formula. They think that, because the "HK Alliance's" inaugural meeting committee had sent a letter inviting XINHUA News Agency officials to attend the inaugural meeting and the "HK Alliance" hoped to develop a relationship with the XINHUA News Agency and with the Chinese side, that it could not be said that the "HK Alliance" still maintained unchanged the tactic of "democratic resistance to communism." With regard to this criticism, my reply is: Everybody knows that among the core members of the leadership strata of the "HK Alliance" and of the "Hong Kong Alliance in Support for

the Patriotic Democratic Movement in China" ["Support Alliance"] there is a high proportion of overlapping, and to a very great degree one can see that they are the same "bit players." Not only did this situation not change in the most recent reelection of the Standing Committee of the "Support Alliance," there was even an increase in the proportion of "HK Alliance" members who are also members of the Standing Committee of the "Support Alliance." The "HK Alliance" chairman is still a member of the Standing Committee of the "Support Alliance," and the chairman of the "Support Alliance" is still a member of the Central Committee of the "HK Alliance." With this kind of setup, what is the meaning of the hope expressed by the "HK Alliance" for development of a relationship with the Chinese side? First, it means of course that the "HK Alliance" understands that, as a local party in Hong Kong, it cannot drastically oppose the Chinese Communists and that it is trying to get the acceptance of the Chinese Communists (but in fact the XINHUA News Agency officials did not accept the invitation to attend the "HK Alliance's" inaugural meeting). Moreover, in the mode of what is called "one bit player, two signboards," they continue to maintain the tactic of "democratic resistance to communism." Of course, the background of the "Support Alliance" at the time of its founding—support of China's modernization and protest against Beijing's 4 June suppression—is irreproachable, but in the future it should also, in response to China's actual situation, adjust and change its way of doing things, and in particular it should not have a real overlapping relationship of the so-called "one bit player, two signboards" mode with any local party in Hong Kong. My opinion is that, even if there is great dissatisfaction with the Chinese Communists, for a local party in Hong Kong's actual environment, the tactic of "democratic resistance to communism," which entails drastic opposition to the Chinese Communists or which rejects acceptance by the Chinese Communists, fundamentally won't work.

"HK Alliance" Upholds Principle, While It Tends Toward Reality in Tactics

Relatively speaking, the "Association for Democracy" has continued to maintain its condemnation of the 4 June suppression, unlike the "HK Alliance's" whitewash. But, on the other hand, the "Association for Democracy" did not send a representative to enter the election contest for the post of Standing Committee member of the "Support Alliance," which showed that the "Association for Democracy" thought that a local party in Hong Kong should not get involved in the core of the "Support Alliance" and thereby displayed a comparatively realistic tactical line. If it is said that the "HK Alliance's" practice of "one bit player, two signboards" in its dealings with the "Support Alliance" still essentially maintains the tactic of drastic opposition to the Chinese Communists (the term "drastic" is, of course, used with Hong Kong's special circumstances in mind), then the "Association for Democracy's" noninvolvement in the core of the "Support Alliance" can be

regarded as maintaining a comparatively realistic tactic toward the Chinese Communists, a tactic that is also relatively moderate. The facts of political development in all parts of the world show that political wisdom requires both protracted hard work of a principled nature and a compromise that, judging the hour and sizing up the situation, suits reality. Obviously, in the future development of Hong Kong's political parties, whether it is the "Association for Democracy" or the "HK Alliance," the above-mentioned political wisdom absolutely cannot be overlooked if it wants to obtain a fairly successful development.

Democratic Groups Maneuvering for 1991 Elections

91CM0042A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 249, 1 Oct 90 pp 58-59

[Article by He Li (0149 4539)]: "1991 Elections: Opportunities and Discord Between Democratic Groups"]

[Text] The year 1991 promises to be a historic one for Hong Kong, with elections scheduled to be held for bodies at every level in the three-tier structure: the Legislative Council [Legco] and two urban and district councils in the city and the New Territories. Moreover, it will be the first time in Hong Kong's history that Legco members will be directly elected, with 18 such members to be directly elected from nine electoral districts. Political forces in all quarters in Hong Kong are gearing up for the elections, eager for battle. The government too is pushing ahead with voter registration amid much fanfare. The mass media also carry endless reports about the elections.

The theme of the political seminar this month, for instance, was the elections next year. Participants in the discussion were Cheng Yu-sho [6774 1342 4311], dean of the Faculty of Arts and Humanities at the Open College for Advanced Studies; Yang Sen [2799 2773], vice chairman of the Hong Kong Democratic League; and Liang Kuang-chang [2733 1639 2490], vice chairman of the Association for Democracy and People's Livelihood. Numerous recent reports point to differences among democratic groups over the choice of candidates for the Legco election. The league is said to have had sharp exchanges with the association over this matter. Thus, differences between the democratic groups were also touched upon briefly at this meeting, which included representatives from both organizations.

Elections Will Not Determine the Overall Situation

Every party seems to be gearing up for the elections with great enthusiasm. On the face of it, things appear rather exciting. However, the voter registration drive has drawn mostly a less-than-enthusiastic response. As far as the Legco election is concerned, many people are itching to have a go, but elections at lower levels, such as those for district councils, are being coldshouldered. In overall

terms, therefore, will next year's elections really have a major impact on Hong Kong's future?

In Cheng Yu-sho's opinion, most Hong Kong people do not think the elections will have a decisive impact on Hong Kong's future, knowing full well that it is changes in the political situation on the mainland that will determine Hong Kong's future. Democratic groups are determined to do their best to capture seats to become an effective opposition. People in industry and commerce, on the other hand, are still sitting on the fence. Although some have put together a Liberal Democratic Federation, there are few true believers. The fact of the matter is that industry and commerce are mostly reluctant to make political commitments because the future political framework does not encourage them to. Post-1997 Hong Kong will remain dominated by administrators. And it is the electoral college that will pick the top administrative officials. Moreover, there is a bias on the Legco in favor of functional groups; directly elected members make up less than half of the total membership. Thus, industrial and commercial groups are already receiving special protection and show no particular eagerness to take part in the elections. Besides, they can take a "short cut" by going directly to the top echelons in Beijing. If they have something to say, they can simply talk to the top leaders there.

Liang Kuang-chang agreed. Captains of industry do not mind spending some money to protect their interests provided it produces results. On balance, one would be better off contributing some money to Beijing to finance the Asian Games than donating it to the Liberal Democratic Federation. No need to tie their image to the federation.

Yang Sen also believed that people in industry and commerce had already won many safeguards in the Basic Law. Economically, there is a low-tax policy, compelling the government to live within its means. In terms of political institutions, Hong Kong will be dominated by administrators, supplemented by the general electoral college and functional groups. Moreover, industry and commerce have their own direct channels that lead to the heart of the top power structure in Beijing. Since both their political and economic interests are already taken care of, the industrial and commercial community has little enthusiasm for the elections. It seems that it is willing to identify and support a number of "friendly figures" as candidates in the direct election, eyeing the seats for functional groups in particular. Democratic groups also realize that Hong Kong's political system is not designed to encourage either political parties or electoral politics.

Looking at the overall situation, Cheng Yu-sho added, "Beijing wants a smooth transition, and Britain does not want to upset Beijing. Thus, neither side wants the democratic forces to gain strength from the elections." The people of Hong Kong understand the situation. On the one hand, they find the British undependable. On the other, they are not reconciled to "grandfather" in Beijing

either. Consequently, protest activities, such as the anniversary of the events of 4 June, always draw big crowds into the streets. Yet few people are galvanized into action when the purpose is to fight for something. People feel it is an exercise in futility because their future will not be decided by votes; it is "grandfather" who has the final say.

Trying To Win as Many Seats as Possible

While the broad picture does not look encouraging, the democratic groups are still committed to doing their best. According to Yang Sen, the people of Hong Kong should avail themselves of all the opportunities they have. Democratic groups hope to build up political organizations and train political talent so that they will become an opposition force and voice within the system in the future. One day, they hope, change will come to the mainland and Hong Kong.

Liang Kuang-chang believed that democratic groups should reflect the social conscience and represent morality and mission. Only the conservative system puts them at a disadvantage today.

Their premise being to avail themselves of all opportunities, democratic groups are out to win as many seats as possible in the three-tier structure in next year's elections. Earlier, the Hong Kong Democratic League estimated that democratic groups could win 9 to 11 directly elected Legco seats. Yang Sen said that they hoped to do best in the Legco elections and to gain a foothold in the elections for the two urban councils and district councils. Liang Kuang-chang noted that, in past urban council and district council elections, over 80 percent of candidates put up by the Association for Democracy and People's Livelihood were elected and expressed the hope that they would do just as well next year.

About the quest for seats, Cheng Yu-sho commented, "Democratic groups should focus more on quality when they nominate candidates. Candidates should be able to really speak for citizens. Remember that democratic groups derive their importance from their moral appeal. They must not be subdued by power or corrupted by wealth. They must be able to stand up to challenges. Once the general situation changes, democratic forces will be able to prevail. Thus the criterion in selecting candidates should be quality, not quantity."

Yang Sen and Liang Kuang-chang said that democratic groups would stress quality and not a person's odds of winning when they nominated candidates. After the elections, moreover, they would keep an eye on those who have been elected to see if they are implementing the party platform. It is hoped that an effective monitoring mechanism can be set up.

The middle class plays an important role in democratic politics and party politics. In recent years, however, there has been a surging tide of migrants out of Hong Kong, many of them middle class. How would this affect the elections?

Yang Sen thought that the outflow or indifference of members of the middle class would mean a shortage of campaign workers and perhaps a drop in district council candidates, which, in turn, would mean more uncontested races. However, the competition for Legco seats would remain very fierce because only 18 directly elected seats would be open next year, and merely two more by 1995.

A Hong Kong and Macao work conference was held on the mainland in late August, which reportedly was mainly taken up with a "Hong Kong policy report" that still considered Hong Kong a "subversion base" and included a policy to take a united front against or crack down on all kinds of organizations and the mass media. Democratic groups in Hong Kong, according to reports on the conference, will be the object of attack. Given this policy, Liang Kuang-chang thought that democratic groups would be targeted in the elections. Even if they lose, people who run against democratic candidates would stand to reap political capital just because they had run against them.

Differences Within Democratic Camp

The last topic of discussion was whether differences had occurred inside the democratic camp. Recently there have been endless reports about discord between the Hong Kong Democratic League and the Association for Democracy and People's Livelihood. What happened was that Feng Chien-chi [7458 2914 1015], chairman of the Association for Democracy and People's Livelihood, planned to run for the Legco from the Western District in Kowloon with Luo Hsiang-kuo [5012 4382 0948], vice president of the Build Up Hong Kong Association. Among democratic circles, however, the Build Up Hong Kong Association is considered "pro-China." Some reports say that representatives from the Hong Kong Democratic League and the Association for Democracy and People's Livelihood traded charges angrily at a meeting, complete with table-banging, over the electoral partnership between Feng Chien-chi and Luo Hsiang-kuo.

Yang Sen argued that media reports had overplayed and even exaggerated the differences between the two groups. He said that whom the Association for Democracy and People's Livelihood recruited as candidates was the association's own business; the league has no clear position on whom to nominate as candidates. As for accounts of the confrontation, Yang Sen said he had known many people in the Association for Democracy and People's Livelihood for a long time. They would not go so far as to bang tables. He had written to a number of mass media to set the record straight.

According to Liang Kuang-chang, the meeting between the Hong Kong Democratic League and the Association for Democracy and People's Livelihood was arranged to exchange ideas. Contrary to what was reported outside, there was no confrontation. Nor did one side try to

interfere with the other. The two sides did discuss the nomination of candidates and would sit down again to study the matter further.

Cheng Yu-sho said it was critical for a camp to present a unified slate of candidates. It is an organizational achievement. If the camp could not agree on one set of candidates, it would find itself in trouble later. Democratic groups should be particularly mindful of their image. Should conflicts occur, there may be reports of infighting. Although such reports may or may not be true, members of the public often tend to believe them, which is clearly harmful to the image of democratic groups.

UK Considers Sites for Future Consulate

*HK1311025590 Hong Kong SOUTH CHINA
MORNING POST in English 13 Nov 90 p 3*

[By Fanny Wong]

[Text] Two prime sites in Central have been identified as potential locations for the future British Consulate which will come into operation in 1997 after Britain hands Hong Kong back to China.

The candidates are Colvin House, which is the current venue for diplomatic discussions between China and Britain, and Beaconsfield House, where the Government Information Services Department is housed.

Although Britain has drawn up a short list of sites, a final decision will only be taken after consultation with China.

It is understood that the allocation of the site will also have to be discussed by the Sino-British Land Commission.

Formerly a part of Victoria Barracks, Colvin House has been converted to a venue for diplomatic discussions at a cost of about \$9.18 million.

Beaconsfield House has been identified as part of the redevelopment programme for Central and Wan Chai.

It is estimated that \$960 million will be needed to redevelop Beaconsfield House and the Central Government Offices. Work is expected to begin in 1993-94.

However, the Government is still reviewing the redevelopment plan.

Under the proposal, the Information Services Department would move to the West Wing of the Central Government Offices at Lower Albert Road, which will be redeveloped into a twin or multi-tower complex before 1995.

In choosing the site, the Government has had to consider the security of the building and whether communication facilities are available to allow confidential messages to be sent to and from London.

Closely working with the Hong Kong Government, British officials have explored different options, including the purchase of a commercial site or using Government land to develop its own premises.

The alternative to building the consulate on a Government site is to use a commercial building, but this option is less popular as the British Government wants to have a building of its own.

It is argued that by adopting a Government site, it would save the need for lengthy and complex negotiations with the private sector for the release of the land.

British officials estimate it will take three to four years to finish the construction work on an empty site and they hope the premises will be ready by 1995.

Until the change of sovereignty, the building will house the British Trade Commission and other sections which handle matters such as immigration.

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47

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